100TH CONGRESS | HOUSE OF REPRESENTATIVES | REPORT
1st Session | | 100-257

VETERANS' HOUSING REHABILITATION AND PROGRAM IMPROVEMENT ACT OF 1987

JULY 30, 1987.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MONTGOMERY, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany H.R. 2672]

[Including cost estimate of the Congressional Budget Office]

The Committee on Veterans' Affairs, to whom was referred the bill (H.R. 2672) to amend title 38, United States Code, for the purpose of improving veterans' housing programs, having considered the same, reports favorably thereon with an amendment, by unanimous voice vote, and recommends that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE; REFERENCE.

(a) SHORT TITLE.—This Act may be cited as the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987".

(b) REFERENCE.—Whenever in this Act an amendment, repeal, redesignation, or transfer is expressed in terms of an amendment to, or repeal, redesignation, or transfer of, a section or other provision, the reference shall be considered to be made to a section or other provision of title 38, United States Code, unless otherwise specified.

SEC. 2. SENSE OF CONGRESS REGARDING SALE OF CERTAIN LOANS.

(a) FINDINGS.—The Congress finds that—

(1) a recent change in accounting procedures proposed by the Office of Management and Budget and concurred in by the Congressional Budget Office with regard to accounting for the proceeds of loans sold with recourse by an agency of the Federal Government has had a significant effect and seriously limited the policymaking function of the Congress;

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(2) this change was accepted by the Congressional Budget Office without consultation with committees affected by such change; and

(3) further, continued efforts to achieve short-term savings in the Veterans' Administration loan guaranty revolving fund are compromising the Administrator of Veterans' Affairs' ability to manage soundly the financing of the Veterans' Administration housing loan guaranty program, thereby jeopardizing the future of this very successful program.

(b) SENSE OF CONGRESS.—It is therefore the sense of the Congress—

(1) that the Congressional Budget Office should reverse its decision on accounting for loans sold with recourse by the Veterans' Administration; and

(2) that, consistent with section 7 of the concurrent resolution on the budget for fiscal year 1988, any change in the assets sales policy of the Veterans' Administration should not be considered in future budget resolutions as a means of achieving deficit reduction.

SEC. 3. LOAN ORIGINATION FEE.

(a) EXTENSION.—Section 1829(c) is amended by striking out "1987" and inserting in lieu thereof "1989".

(b) WAIVER.—Section 1829(b) is amended by striking out "described in section 1801(b)(2) of this title" and inserting in lieu thereof "of any veteran (including a person who died in the active military, naval, or air service) who died from a service-connected disability".

SEC. 4. GUARANTY AMOUNT.

(a) PURCHASE OR CONSTRUCTION OF HOMES.—(1) Section 1803(a)(1) is amended by striking out "in an amount" and all that follows and inserting in lieu thereof the following:

"in an amount not to exceed—

"(A) 40 percent of the loan, or $40,000, whichever is less, reduced by

"(B) the amount of entitlement previously used by the veteran under this chapter and not restored as a result of the exclusion in section 1802(b) of this title."

(2) Section 1810(c) is repealed.

(b) MANUFACTURED HOMES.—Section 1819(c) is amended—

(1) in paragraph (3), by striking out the first sentence and inserting in lieu thereof the following: "The Administrator's guaranty may not exceed—

"(A) 30 percent of the loan, or $20,000, whichever is less, reduced by

"(B) the amount of entitlement previously used by the veteran under this chapter and not restored as a result of the exclusion in section 1802(b) of this title."; and

(2) by striking out paragraph (4).

(c) DIRECT LOANS.—Section 1811 (d)(2)(A) is amended by striking out "$27,500" each place it appears and inserting in lieu thereof "$40,000".

SEC. 5. ASSISTANCE PROVIDED IN DEFAULT.

Section 1816(a) is amended by adding at the end the following new paragraph:

"(4) Upon receipt of a notice pursuant to paragraph (1) of this subsection, the Administrator shall, through the appropriate local office of the Veterans' Administration, contact the veteran concerned for the purpose of providing the veteran with information about—

"(A) alternatives to foreclosure, including possible methods of curing the default such as (i) conveying the property to the Administrator, or (ii) utilizing the methods authorized by sections 1832(a)(2) and 1813 of this chapter; and

"(B) in the case of foreclosure, the—

"(i) Veterans' Administration and the veteran's liability with respect to the loan; and

"(ii) methods of reducing the veteran's liability to the Veterans' Administration,

unless the Administrator has received satisfactory assurances that the lender had adequately advised the veteran with respect to such matters. The Administrator shall, to the extent of the availability of appropriations, take such steps as are necessary to assure that sufficient personnel are available to effectively and efficiently administer this paragraph.".

SEC. 6. ACTIONS WITH RESPECT TO DEFAULTED LOANS.

(a) DETERMINATION OF TOTAL INDEBTEDNESS.—Section 1816(c) is amended—

(1) in paragraph (1)(D), by striking out "The" and inserting in lieu thereof "Except as provided by paragraph (10)(B) of this subsection, the";

(2) in clause (ii) of paragraph (1)(D), by striking out "of the liquidation sale" and all that follows in such clause and inserting in lieu thereof the following: "applicable under paragraph (10)(A) of this subsection, and"; and

(3) by adding at the end the following new paragraph:

"(10)(A) The date referred to in paragraph (1)(D)(ii) of this subsection shall be—

~~"(i) the~~ date of the liquidation sale of the property securing the loan;

"(ii) in any case in which there is a delay in such sale beyond a reasonable period of time caused by the holder of such loan, such earlier date as the Administrator may specify pursuant to regulations prescribed by the Administrator to implement this subsection; or

"(iii) in any case in which there is a delay in such sale beyond a reasonable period of time caused by—

"(I) the Veterans' Administration;

"(II) a voluntary case commenced under title 11, United States Code (relating to bankruptcy); or

"(III) the holder of the loan exercising forbearance at the request of the Administrator,

such earlier date which the Administrator shall specify pursuant to such regulations.

"(B) For the purpose of determining the liability of the United States under a loan guaranty under clause (B) of paragraphs (5), (6), (7), and (8) of this subsection, the amount of the total indebtedness with respect to such loan guaranty shall include, in any case where there was a delay beyond a reasonable period of time caused by the Veterans' Administration in the liquidation sale of the property securing such loan, any interest which had accrued as of the date of such sale and which would not be included, except for this subparagraph, in the calculation of such total indebtedness as a result of the specification of an earlier date under subparagraph (A)(iii) of this paragraph.".

(b) NUMBER OF VENDEE LOANS.—Section 1816(d)(1) is amended by striking out "not more than 75 percent, nor less than 60 percent," in the first sentence and inserting in lieu thereof "not more than 75 percent (65 percent in the case of fiscal years 1988, 1989, and 1990), nor less than 60 percent (50 percent in the case of fiscal years 1988, 1989, and 1990),".

(c) EXTENSION.—(1) Subsection (c) of section 1816 is amended by adding at the end (after the paragraph added by subsection (a) of this section) the following new paragraph:

"(11) This subsection shall cease to have effect on October 1, 1989."

(2) Subsection (d) of section 1816 is amended by adding at the end (after the paragraph added by section 10 of this Act) the following new paragraph:

"(5) This subsection shall cease to have effect on October 1, 1989."

(3) Paragraph (2) of section 2512(c) of the Deficit Reduction Act of 1984 (Public Law 98-369; 98 Stat. 1117) is repealed.

(d) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to defaults which occur on or after 30 days after the date of the enactment of this Act.

SEC. 7. DIRECT LOANS IN AMERICAN SAMOA.

Section 1811 is amended by adding at the end the following new subsection:

"(l) The Administrator shall make loans, in accordance with subsection (d)(2) and the other provisions of this section, to eligible veterans in American Samoa in an amount equal to the amount provided to such veteran by the government of American Samoa."

SEC. 8. REMOVAL OF OCCUPANCY REQUIREMENTS IN CERTAIN CASES.

(a) REFINANCING.—(1) Section 1810(e)(1)(B) is amended by striking out "and occupied by the veteran as such veteran's home" and inserting in lieu thereof "by the veteran".

(2) Section 1819(a)(4)(A)(ii) is amended by striking out "and occupied by the veteran at such veteran's home" and inserting in lieu thereof "by the veteran".

(3) Section 1819(e)(5) is amended by inserting before the semicolon the following: "; except that the requirement of this clause shall not apply (A) in the case of a guaranteed loan that is for the purpose described in paragraph (1)(F) of subsection (a), or (B) in the case described in section 1804(c)(2)".

(b) OTHER SITUATION.—(1) Section 1804(c) is amended—

(A) by striking out "(c) No" and inserting in lieu thereof "(c)(1) Except as provided in paragraph (2) of this subsection, no";

(B) by striking out "No loan" in the second sentence and inserting in lieu thereof "Except as provided in paragraph (2) of this subsection, no loan"; and

(C) by adding the following paragraph at the end:

"(2) In any case in which a veteran is in active duty status as a member of the Armed Forces, the occupancy requirements of—

"(A) paragraph (1) of this subsection;

"(B) paragraphs (1) through (5) and paragraph (7) of section 1810(a) of this title;

"(C) section 1812(a)(5)(A)(i) of this title; and

"(D) section 1812(e)(5) of this title;

shall be considered to be satisfied if the spouse of the veteran occupies the property as the spouse's home and the spouse makes the certification required by paragraph (1) of this subsection.".

(2) Section 1810(a) is amended by striking out "(a) Any" and inserting in lieu thereof "(a) Except as provided in section 1804(c)(2) of this title, any".

(3) Section 1819(a)(5)(A)(i) is amended by inserting "(except as provided in section 1804(c)(2) of this title)" after "by the veteran".

SEC. 9. PROPERTY MANAGEMENT.

(a) HOMELESS PROGRAM.—(1) To assist homeless veterans and their families acquire shelter, the Administrator of Veterans' Affairs may enter into agreements described in paragraph (2) of this subsection with—

(A) any organization named in, or approved by the Administrator under, section 3402 of title 38, United States Code;

(B) any political subdivision of any State; or

(C) the District of Columbia.

(2) To carry out paragraph (1) of this subsection, the Administrator may enter into agreements to sell real property, and improvements thereon, acquired by the Administrator as the result of a default on a loan made or guaranteed under chapter 37 of title 38, United States Code. Such sale may be for such consideration as the Administrator determines is in the best interests of homeless veterans and the Federal Government.

(3) The Administrator may enter into an agreement under paragraph (1) only if—

(A) the Administrator determines that such an action will not adversely affect the Veterans' Administration's ability—

(i) to fulfill its statutory missions with respect to the Veterans' Administration loan guaranty program and the short- and long-term solvency of the Loan Guaranty Revolving Fund; or

(ii) to carry out other functions and administer other programs authorized by law;

(B) the entity to which the property is sold agrees to (i) utilize the property solely as a shelter primarily for homeless veterans and their families, (ii) to comply with all zoning laws relating to the property, and (iii) to make no use of the property that is not compatible with the area where the property is located; and

(C) the Administrator determines that there is little likelihood of the property being sold for a price sufficient to reduce the liability to the Veterans' Administration of the veteran who had defaulted on the loan guaranteed under chapter 37 of title 38, United States Code.

(b) JOB TRAINING PROGRAM.—(1) To assist veterans obtain training pursuant to the Veterans' Job Training Act, the Administrator may convey, to persons described in paragraph (2) of this subsection, real property and improvements described in subsection (a)(2) of this section for an amount not less than 75 percent of the fair market value of such real property and improvements.

(2) The Administrator may convey such property to persons who enter into an agreement with the Administrator to—

(A) use veterans in a program of job training under the Veterans' Job Training Act in the rehabilitation of residences on such real property; and

(B) provide a priority to veterans in the sale of such rehabilitated residences.

(3) The Administrator shall reduce the amount of any liability that a veteran has with respect to any property conveyed under this section by an amount equal to the reduction in the sale price of the property below the fair market value of the property.

SEC. 10. REHABILITATION WITH VENDEE LOANS.

Section 1816(d) is amended by adding at the end the following new paragraph:

"(4) The Administrator may include, as part of a loan to finance a purchase of property acquired by the Administrator as a result of a default on a loan guaranteed under this chapter, an amount to be used only for the purpose of rehabilitating the property to be purchased with the loan. Such amount may not exceed the amount necessary to rehabilitate the property to a habitable state and shall be made available periodically as such rehabilitation is completed."

SEC. 11. NOTIFICATION REQUIREMENT IN CASE OF ASSUMPTION OF LOAN.

(a) IN GENERAL.—Section 1817—

(1) is transferred to, and redesignated as, section 1814; and

(2) is amended to read as follows:

"1814. Release from liability under guaranty

"(a)(1) If a veteran disposes of residential property securing a guaranteed, insured, or direct housing loan obtained by the veteran and the veteran notifies the holder of the loan before the property is disposed of, the veteran shall be relieved of all further liability to the Administrator on account of such loan (including liability for any loss resulting from any default of the transferee or any subsequent purchaser of such property) if—

"(A) the loan is current, and

"(B) the purchaser of such property from such veteran—

"(i) is obligated by contract to purchase such property and to assume full liability for the repayment of the balance of the loan remaining unpaid and has assumed by contract all of the obligations of the veteran under the terms of the instruments creating and securing the loan; and

"(ii) qualifies from a credit standpoint, to the same extent as if the transferee were a veteran eligible under section 1810 of this title, for a guaranteed or insured or direct loan in an amount equal to the unpaid balance of the obligation for which the transferee has assumed liability.

"(2) If the holder determines that the loan is not current or that the purchaser of such property does not meet the requirements of paragraph (1)(B) of this subsection, the holder shall—

"(A) notify the veteran and the Administrator of such determination; and

"(B) notify the veteran that the veteran may appeal the determination to the Administrator.

"(3)(A) Upon the request of the veteran after a determination described in paragraph (2) is made, the Administrator shall review and make a determination with respect to whether the loan is current and whether the purchaser of such property meets the requirements of paragraph (1)(B) of this subsection.

"(B) If the Administrator determines that the loan is current and that the purchaser meets the requirements of paragraph (1)(B) of this subsection, the holder shall approve the transfer, and the veteran shall be relieved of all liability with respect to such loan.

"(C) If—

"(i) the Administrator determines that the loan is not current or that the purchaser does not meet the requirements of paragraph (1)(B) of this subsection; or

"(ii) no appeal is made by the veteran under subparagraph (A) of this paragraph within 30 days after the holder informs the veteran of its determination under paragraph (2) of this subsection,

the holder may demand immediate, full payment be made of the principal, and all interest earned thereon, of such loan if the veteran disposes of the property.

"(b) If a veteran disposes of residential property described in subsection (a)(1) of this section and the veteran fails to notify the holder of the loan before the property is disposed of, the holder, upon learning of such action by the veteran, may demand immediate, full payment be made of the principal, and all interest earned thereon, of such loan.

"(c)(1) In any case in which the holder of a loan described in subsection (a)(1) of this section has knowledge of a veteran's disposing of residential property securing such loan, the holder shall notify the Administrator of such action.

"(2) If the holder fails to notify the Administrator, the holder shall be liable to the Administrator for any damage sustained by the Administrator as a result of such failure, as determined at the time the Administrator has to make payments in accordance with any insurance or guarantee made by the Administrator with respect to the loan concerned.

"(d) The Administrator shall provide that each contract entered into by a veteran with respect to a guaranteed, insured, or direct housing loan shall contain provisions implementing the requirements of this section.".

(b) Effective Date.—(1) The amendment made by subsection (a) shall apply to loans for which commitments are made on or after 90 days after the date of the enactment of this Act.

(2) Section 1817 of title 38, United States Code, shall continue to apply to loans for which commitments were made before the effective date of paragraph (1) of this subsection in the same manner in which such section was applicable to such loans before such effective date.

SEC. 12. MORTGAGE PAYMENT ASSISTANCE TO AVOID FORECLOSURE OF HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION.

(a) In General.—Chapter 37 is amended by inserting after section 1812, as transferred and redesignated as such by section 16(b)(1) of this Act, the following new section:

"1813. Loans to refinance delinquent indebtedness

"(a)(1) The Administrator may, at the Administrator's option, provide assistance to a veteran under this section for the purpose of avoiding the foreclosure of a housing loan made to that veteran and guaranteed by the Administrator under section 1810 or 1812 of this title (hereinafter in this section referred to as a 'primary loan').

"(2) Assistance under this section shall be in the form of a loan to the veteran. Such assistance may be provided only if—

"(A) the dwelling that secures the primary loan is the current residence of the veteran and is occupied by the veteran as the veteran's home;

"(B) the veteran is at least six months delinquent in payments on that primary loan;

"(C) the veteran is unemployed or has had a substantial reduction in household income (as defined in regulations prescribed by the Administrator) through no fault of the veteran; and

"(D) the Administrator determines that there is a reasonable prospect that the veteran will be able to resume payment on the primary loan within six months after receiving assistance under this section.

"(3) For the purposes of this section, the term 'veteran' includes the surviving spouse of a veteran if the surviving spouse was a co-obligor of the primary loan.

"(b)(1) A loan under this section shall be advanced to the holder of the primary loan. The amount of the loan under this subsection shall first be applied to the amount delinquent on the loan guaranteed under this chapter including any amount delinquent on taxes, assessments, and hazard insurance required by the holder to be included in the veteran's monthly payment on the mortgage. Any remaining amount of such loan shall be retained by the holder and shall be applied to future payments including taxes, assessments, and hazard insurance due on the loan and unpaid (in whole or in part) on the date the payment becomes due.

"(2) The Administrator may make more than one loan under this section to a veteran. The total amount of loans under this section to any veteran may not exceed $8,400.

"(c) A loan under this section—

"(1) shall bear interest at the lower of (A) the maximum rate in effect (as of the date of the first loan made to the veteran under this section) for loans guaranteed under section 1810(a)(1) of this title, or (B) the rate on the primary loan;

"(2) shall be secured by a lien on the property securing the primary loan and by such other security as the Administrator may require; and

"(3) shall be subject to such additional terms and conditions as the Administrator may require.

"(d) As a condition of receiving a loan under this section the veteran shall execute an agreement, in such form as the Administrator may prescribe, to repay the loan within a reasonable period of time, as determined by the Administrator, not to exceed 15 years from the date on which such loan is made. If the Administrator determines that the veteran has sufficient income or other resources to do so, the Administrator may require the veteran to make partial payments on the primary loan guaranteed under this chapter during the period the holder of that loan is applying the amount of the loan under this section to payments becoming due on the primary loan.

"(e) Notwithstanding any other law, the Administrator may employ attorneys to bring suit to collect any amount of a loan under this section on which the veteran to whom the loan is made is in default.

"(f) The Administrator's decisions on any question of law or fact regarding assistance under this section, including whether or not to grant such assistance and the terms and conditions under which such assistance is granted or not granted, shall be final and conclusive, and no other official or any court of the United States shall have power or jurisdiction to review any such decision by an action in the nature of mandamus or otherwise.

"(g) The Administrator may not make a loan under this section after the end of the two-year period beginning on the effective date of this section.".

(b) Effective Date.— The amendment made by subsection (a) shall take effect at the end of the 60-day period beginning on the date of the enactment of this Act.

SEC. 13. APPRAISALS.

(a) Qualification for Appraisers.—Section 1831(a)(1) is amended by inserting before the semicolon at the end the following: ", including the successful completion of a written test, submission of a sample appraisal, certification of an appropriate number of years of experience as an appraiser, and submission of recommendations from other appraisers".

(b) Lender Appraisal.—(1) Section 1831 is amended—

(A) in subsection (c), by striking out "The Administrator shall, upon request," and inserting in lieu thereof "Except as provided in subsection (f) of this section, the appraiser shall forward an appraisal report to the Administrator for review. The Administrator shall then determine the reasonable value of the property for purposes of this chapter, and notify the veteran of such determination. Upon request, the Administrator shall";

(B) in subsection (d), by striking out "lender—" and inserting in lieu thereof "lender (other than a lender described in subsection (f) of this section)—"; and

(C) by adding at the end thereof the following new subsection:

"(f) The Administrator may, in accordance with standards and procedures established by the Administrator, authorize certain lenders to determine the reasonable value of the property. In such a case, the appraiser selected by the Administrator pursuant to subsection (b) of this section shall forward the appraisal report directly to the lender for review who shall, upon request, furnish a copy of such appraisal to the veteran concerned.".

(2) Section 1810(b) is amended—

(A) in paragraph (5), by striking out "by the Administrator;" and inserting in lieu thereof, "pursuant to section 1831 of this title;"; and

(B) by striking out the final sentence thereof.

SEC. 14. EXCLUSION FROM VETERAN'S LIABILITY.

Subchapter III of chapter 37 is amended by adding the following new section after the section added by section 16(b)(3) of this Act:

"1834. Exclusion from liability

"In any case in which the Administrator refuses to accept a veteran's offer to convey the property securing a housing loan which is guaranteed under this chapter and with respect to which a default has occurred, the Administrator may not include in the liability of the veteran to the Administrator with respect to such loan any interest or other charges, including the cost of foreclosure proceeding, incurred with respect to such loan after 30 days after the date on which such offer is made."

SEC. 15. DEMONSTRATION PROGRAM.

(a) In General.—(1) The Administrator of Veterans' Affairs shall carry out a demonstration project under this section during fiscal years 1988 and 1989 for the purpose of guaranteeing loans in a manner similar to the manner in which the Secretary of Housing and Urban Development insures adjustable rate mortgages under section 251 of the National Housing Act.

(2) The Administrator shall carry out such project through the housing loan guaranty program office at a regional office of the Veterans' Administration.

(b) Report.—The Administrator shall transmit a report to the Congress no later than December 31, 1989, containing a description of the results of the implementation of the project carried out under this section and shall continue to make annual reports to the Congress with respect to the default rate and other information concerning the loans guaranteed under this section.

SEC. 16. TECHNICAL AMENDMENTS.

(a) Technical Reorganization of Subchapter I of Chapter 37.—(1) Section 1802(a) is amended—

(A) by striking out "(a)" and inserting in lieu thereof "(a)(1)";

(B) by striking out the first sentence and inserting in lieu thereof: "The veterans described in paragraph (2) of this subsection are eligible for the housing loan benefits of this chapter.";

(C) by striking out "in the preceding sentence, or in section 1818 of this title," in the second sentence and inserting in lieu thereof "in paragraph (2)";

(D) by striking out "(1)" and "(2)" in the second sentence and inserting in lieu thereof "(A)" and "(B)", respectively;

(E) by redesignating clauses (A) and (B) as clauses (i) and (ii), respectively; and

(F) by adding at the end the following:

"(2) The veterans referred to in the first sentence of paragraph (1) of this subsection are the following:

"(A) Each veteran who served on active duty at any time during World War II, the Korean conflict, or the Vietnam era and whose total service was for ninety days or more.

"(B) Each veteran who was discharged or released from a period of active duty, any part of which occurred during World War II, the Korean conflict, or the Vietnam era, for a service-connected disability.

"(C) Each veteran whose only active duty service occurred after July 25, 1947, and prior to June 27, 1950, and who—

"(i) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable; or

"(ii) served for a period of 180 days or less and was discharged or released for a service-connected disability.

"(D) Each veteran who served on active duty, any part of which occurred after January 31, 1955, and prior to August 5, 1964, or after May 7, 1975, and who—

"(i) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable;

"(ii) has served more than 180 days in active duty status and continues on active duty without a break therein; or

"(iii) was discharged or released from such active duty for a service-connected disability.

"(3) Any entitlement based solely on the provisions of clause (D) of paragraph (2) of this subsection which had not expired as of October 23, 1970, and any such entitlement occurring after such date, shall not expire until used.".

(2) Subsection (g) of section 1802 is transferred to the end of subsection (a) of such section, as amended and otherwise modified by the other provisions of this subsection, and is redesignated as paragraph (4) of such subsection (a).

(3)(A) Paragraph (2) of section 1803(a) is transferred to the end of subsection (a) of section 1802, as amended and otherwise modified by the other provisions of this subsection, and redesignated as paragraph (5) of such subsection (a).

(B) Section 1815—

(i) is amended by striking out the section heading; and

(ii) is transferred to the end of section 1803(a) and subsections (a) and (b) of such section 1815 are redesignated as paragraphs (2) and (3) of such section 1803(a).

(4) Sections 1807 and 1818 are repealed.

(b) Technical Reorganization of Subchapters II and III of Chapter 37.—(1) Section 1819 (as amended by sections 4(b), 8(a)(2) and (3), and 8(b)(3) of this Act) is transferred to, and redesignated as, section 1812.

(2) The title heading of section 1816 and subsections (a) (as amended by section 5 of this Act), (b), and (c) (as amended by subsections (a) and (c)(1) of section 6 of this Act) of such section 1816 are transferred to, and redesignated as, a new section 1832.

(3) Subsections (d) (as amended by section 2, subsections (b) and (c)(2) of section 6, and section 10 of this Act), (e), and (f) of section 1816 are transferred to, and redesignated as, subsections (a), (b), and (c), respectively, of a new section 1833 with the following heading:

"1833. Property management".

(4) Section 1832—

(A) is amended by striking out the section heading; and

(B) is transferred to the end of the new section 1833 added by paragraph (3) of this subsection and is designated as subsection (d) of such new section 1833.

(c) TABLE OF CONTENTS.—The table of contents of chapter 37 is amended—

(1) by striking out the item for section 1807;

(2) by striking out the items relating to subchapter II and inserting in lieu thereof the following:

"SUBCHAPTER II—LOANS

"1810. Purchase or construction of homes.
"1811. Direct loans to veterans.
"1812. Loans to purchase manufactured homes and lots.
"1813. Loans to refinance delinquent indebtedness.
"1814. Release from liability under guaranty."; and

(3) by striking out the item relating to section 1832 and inserting in lieu thereof the following:

"1832. Procedure on default.
"1833. Property Management."

(d) CONFORMING AMENDMENTS.—(1) Section 1801(a) is amended by striking out "1819(a)(1)" and inserting in lieu thereof "1812(a)(1)".

(2) Section 1803(c)(3) is amended by striking out "1819" in clauses (A) and (E) and inserting in lieu thereof "1812".

(3) Section 1810 is amended—

(A) in subsection (a)(9)(B)(ii), by striking out "section 1819(a)(5)" and inserting in lieu thereof "section 1812(a)(5)"; and

(B) in subsection (g)(2), by striking out "section 1819(e)(2)" and inserting in lieu thereof "section 1812(e)(2)".

(4) Section 1811 is amended by striking out "1819" each place it appears and inserting in lieu thereof "1812".

(5) Any reference, in effect on the date of the enactment of this Act, in any law to any of the sections, or parts thereof, redesignated or transferred by this section shall be construed to refer to the section, or part thereof, as redesignated or transferred by this section.

(e) TECHNICAL NATURE OF AMENDMENTS.—The status of any veteran with respect to benefits under chapter 37 of title 38, United States Code, shall not be affected by the amendments made by, or other provision of, this section.

INTRODUCTION

On April 9, 1987, the Subcommittee on Housing and Memorial Affairs initiated a series of extensive oversight hearings on the VA Home Loan Guaranty Program. Testimony was received from the Honorable Lane Evans, a member of the Committee, the Honorable Doug Barnard Jr., the Honorable Fofo I.F. Sunia, and representatives of homeless veterans and various community housing assistance groups. On April 22, 1987, the Committee heard testimony from the Honorable Marvin Leath, as well as the Deputy Administrator of Veterans' Affairs and the Chief Benefits Director of the VA, representatives of banking and real estate concerns from Houston, Texas, the Mortgage Bankers Association, the National Association of Home Builders, the National Association of Realtors, The American Legion, the Veterans of Foreign Wars, the Disabled American Veterans, the Non-Commissioned Officers Association, Chapter 35 of the Vietnam Veterans of America, AMVETS, and the Paralyzed Veterans of America.

Testimony from these witnesses addressed the general strengths and weaknesses of the VA Home Loan Guaranty Program, as well as specific legislative and oversight issues. These included the VA appraisal process; the lack of mortgage assistance in American Samoa; proposals to assist homeless veterans; VA loan servicing and foreclosure procedures, including policies on "no-bid" properties; property management; adequacy of the current guaranty formula; adjustable rate mortgages; retention of the VA administratively set loan rate; and proposals contained in the President's FY 1988 budget submission, including an increase in the VA loan origination fee from 1 percent to 2.5 percent over a 3-year period and sale of VA vendee loans without recourse.

The Subcommittee held a third hearing on April 29, at which the General Accounting Office presented their findings from a recent study of the VA Home Loan Guaranty Program, primarily with regard to VA loan servicing, foreclosures, and no-bid policies.

A fourth hearing was held by the Subcommittee in Greenville, South Carolina, on May 29, at which local VA managers as well as representatives from the mortgage banking, real estate and housing industries and from veterans service organizations presented their views and suggestions on the VA Home Loan Guaranty Program.

H.R. 2672 was drafted in response to the many issues and concerns raised during the course of these hearings. The Subcommittee held a legislative hearing on H.R. 2672 on June 23, and unanimously recommended the bill with an amendment to the full Committee on July 14. The full Committee met on July 22, and ordered H.R. 2672, as amended, reported to the House by unanimous voice vote.

SUMMARY OF THE BILL

The reported bill would:

(1) Authorize direct loans of up to $8,400 for the purpose of mortgage foreclosure relief, for situations where default occurred through no fault of the veteran.

(2) Require local VA offices to advise defaulting veterans about alternatives to foreclosure which might be available, including deeds in lieu of foreclosure and refunding.

(3) Exclude the VA foreclosure costs in certain instances from a veteran's total liability if the veteran offered to convey the property to the VA by a deed in lieu of foreclosure procedure.

(4) Change the VA property acquisition formula by stopping accrual of interest for calculation purposes in certain instances.

(5) Extend the 1 percent loan origination fee for two years, to September 30, 1989 and clarify that it shall be waived for any surviving spouse of a veteran whose death was service connected, including a surviving spouse who is also a veteran.

(6) Revise the guaranty formula for conventional loans from 60 percent of the loan up to $27,500 to 40 percent of the loan up to $40,000; and from 50 percent of the loan up to $20,000 to 30 percent of the loan up to $20,000 for manufactured housing.

(7) Change the percent of acquired properties financed by the VA from 60 percent to 75 percent for three years to 50 to 65 percent.

(8) Specify certain qualifications persons must meet to be designated as a VA fee appraiser.

(9) Authorize appraisal reports to be sent directly to certain lenders for expedited review and reasonable value determination.

(10) Release veterans from future liability when their loans are assumed if purchaser is approved from a credit and income standpoint.

(11) Redefine occupancy requirements in certain cases for refinancing and home loan origination purposes.

(12) Encourage organizations and political subdivisions to acquire difficult to sell foreclosed property to assist homeless veterans and authorize discounts for this purpose.

(13) Discount properties up to 25 percent to organizations who rehabilitate same under the Veterans' Job Training Act.

(14) Authorize additional vendee loans to rehabilitate foreclosed properties to a habitable state.

(15) Authorize a matching direct loan program for American Samoan veterans.

(16) Establish a two-year pilot program on Adjustable Rate Mortgages (ARMS) at one regional office.

(17) Authorize a Sense of the Congress Resolution regarding the impact of certain accounting changes on the long-term solvency of the program.

BACKGROUND AND DISCUSSION OF THE BILL

The VA Home Loan Guaranty Program was established under the Servicemen's Readjustment Act of 1944 (P.L. 78-346). As World War II drew to a close, Congress sought ways to ease the economic and sociological readjustment of returning service men and women to civilian life. The program was an innovative means of affording veterans favorable credit which would allow them to purchase a home, business or farm. Many of these veterans, because of their service in the Armed Forces, had missed an opportunity for establishing personal credit or for accumulating enough money for a substantial downpayment on a home. By substituting the guaranty of the United States, these veterans were able to enter the home-buying market on a comparable level with their nonveteran counterparts.

Although the objectives of the legislation were specific to the readjustment of returning veterans, rather than to influencing the economy as a whole, the VA Home Loan Guaranty Program, as a by-product, created an excellent investment outlet for the large pool of savings that had been built up during World War II. Channeling this capital into a productive peacetime activity was perceived as a means of stimulating the economy and averting to some degree the possibility of post-war depression. Under the original program, guaranties could be made up to 50 percent of the loan, not to exceed $4,000. There was a 20-year maximum on repayment terms, and a maximum 4 percent interest rate. In conjunction with the National Housing Act of 1950, VA terms were changed to 60 percent of the loan up to $7,500.

Over the years, Congress enacted many changes to the program to enhance its viability, and to respond to developments in the economy and to changes in the needs of veterans. There is now no delimiting date for a veteran to make use of this benefit, and entitlement may be regained once the veteran has paid off the initial loan in full and disposed of the property. The VA may presently guarantee 60 percent of the loan's value, up to a maximum of $27,500.

Since the inception of the VA Home Loan Guaranty Program in 1944, over 12 million veterans have received VA-backed mortgage assistance. More than 7.5 million of these loans totaling $102.7 billion have been repaid. The program has been enormously successful in terms of helping veterans to become home owners, and has proved to be a powerful stimulus to the nation's economy.

Despite the program's obvious success, actions by the Office of Management and Budget designed to get the Federal Government out of housing programs and recent actions and proposals by this Administration have tended to weaken the program's potential for serving veterans effectively, and to threaten the long-term solvency of the Loan Guaranty Revolving Fund. Other areas of significant concern, which were repeatedly highlighted during testimony before the Subcommittee on Housing and Memorial Affairs, include rising foreclosure rates; the VA appraisal process; management of the program's loan assets and property inventory; and program responsiveness to the current housing market.

High Foreclosure Rates

Veterans using the VA Home Loan Guaranty Program have an excellent repayment record. However, the number of foreclosures has been increasing in recent years. While the VA's experience is comparable to FHA and conventional lenders, the Committee is concerned about the solvency of the Revolving Fund which must pay claims arising from foreclosures, and above all, the devastating effect of foreclosure on veterans who have defaulted on their obligation to repay a loan. The General Accounting Office (GAO) conducted a study of the foreclosure process at the request of the Committee, and reported on their findings at a hearing of the Subcommittee on Housing and Memorial Affairs on May 13. GAO testified that "the foreclosure process is costly for VA, the veteran, and sometimes the lender, particularly in depressed housing markets." In their study GAO found that:

"The extent of servicing (loan counseling and financial assistance) provided to veterans varied among the offices we visited and none of the offices voluntarily notified veterans of all the financial assistance options available to cure their defaulted loans. Some offices said they did not have adequate staff to provide effective assistance and our review shows that VA does not have a system to determine the number of delinquent loans that can be effectively handled by its servicing technicians."

Testimony received from community housing groups, industry representatives, and others at the Subcommittee hearings of April 9 and 22, expressed strong views that many foreclosures could be avoided by prompt and effective servicing shortly after the veteran's initial default. This would clearly be to the benefit of the veteran, and would avert the high cost of mortgage foreclosure that must be absorbed by the Loan Guaranty Revolving Fund.

The VA does have loan servicing procedures in place. However, the timeliness of this aspect of the program has deteriorated. H.R. 2672 addresses this problem by requiring the VA to provide more effective servicing when a loan goes into default, to the extent that resources are available. At a minimum, veterans are to be advised of the alternatives to foreclosure that may be available to them, including voluntary deeds-in-lieu of foreclosure. Virtually every witness who discussed this subject at the Subcommittee's extensive hearings acknowledged the effectiveness of early loan servicing in reducing foreclosures.

In addition, the bill establishes a mortgage foreclosure relief program targeted to veterans who have experienced default through no fault of their own.

Assistance under the reported bill may be afforded, in the Administrator's discretion, to veterans who are either unemployed or underemployed and to veterans who have recently been unemployed or underemployed and as a result have fallen behind in their mortgage payments. In any of the above cases, the assistance would be limited to those veterans who have fallen 6 or more months behind in their mortgage payments.

The assistance provided may take the form of one loan or a series of loans which will be disbursed directly to the holder of the primary loan, who is responsible for assuring that the veteran's obligation to repay the assistance is secured by a lien of record. The loan or total of loans may not exceed $8,400. The assistance may be applied against the veteran's mortgage obligation as either payment in full of each monthly installment, or, if supplemented by cash from the veteran's own resources, as partial payment of the monthly installment. Under the latter option, a veteran could be assisted for a longer period of time, although the $8,400 maximum would still apply. The loan must be repaid within a reasonable amount of time, as determined by the Administrator, not to exceed 15 years. It should be noted that the Administrator, at his discretion, may require the veteran to make partial payments when the veteran's income and other resources indicate, in the Administrator's judgement, that the veteran can afford to do so. Similarly, in appropriate cases the Administrator may establish, initially or as a result of changed circumstances, that a sum less than the $8,400 statutory maximum is the maximum amount of assistance to be provided in a particular veteran's case.

No assistance should be afforded in a case where the veteran has no reasonable prospect of repaying the assistance provided. The Administrator will determine whether or not the veteran has, in the Administrator's sole discretion, a reasonable prospect of both being able to resume full mortgage payments on the primary loan and being able to repay the assistance provided. Assistance under this section is not a grant; it is a secured loan which requires an analysis of the ability of the veteran to repay both obligations.

The loan must be secured by a lien on the veteran's home, and the Administrator may require additional security, when he believes it to be available and appropriate. There is no requirement that the Administrator determine the value of the veteran's home or estimate the amount of equity the veteran may have in the home.

A veteran who has obtained the maximum authorized benefits of temporary mortgage assistance ($8,400) may not thereafter receive additional benefits. The Administrator would be authorized to employ attorneys and to bring suit at any time to enforce collection of the repayment agreement, if necessary.

The Administrator's maximum liability under the guaranty on the primary loan would not be reduced by virtue of the holder having received the proceeds of a loan under the new section 1816A should the veteran, notwithstanding this assistance, still be unable to maintain payments on the primary loan. Since the assistance provided by the Administrator will have reduced or eliminated the prior delinquency on the primary loan, it is possible that the Administrator's ultimate claim payment might be less than would have been the case had assistance not been provided.

Section 1816A becomes effective 60 days after the date of enactment of the bill. The Committee expects the VA to have regulations in place in order to begin operation of the program on time. Because of the current economic situation, it is critical that the VA be ready to begin administering the program immediately. Accordingly, the Committee would anticipate that interim regulations will be issued for immediate effect without public comment. The VA should request public comment on such interim regulations, and issue revised regulations incorporating public concerns as soon as feasible.

The Committee wishes to make clear that no new money would be required to provide this assistance. This program would be funded out of existing revolving funds. If this program is implemented in the manner desired by the Committee and most loans recouped, it should prove cost effective to the U.S. Government by substituting this mortgage payment advance for the high expenses currently incurred by the Veterans' Administration in paying claims of lenders, instituting the foreclosure procedures and reselling acquired properties.

Loan Assumptions

One of the perceived advantages to the VA Home Loan Guaranty Program is easy assumability of such loans when a veteran decides to dispose of the property; however, there are aspects to this feature which have led to abuse and even fraud. Time and again the Committee has heard from veterans whose loans were assumed, but became liable for the debt of the new occupant when the house went into foreclosure. The Committee has also received very disturbing reports of certain frauds such as "equity skimming" being perpetrated against veterans. Unscrupulous "investors" assume a veteran's loan, rent the property to make a quick profit, and meanwhile allow the loan to go into default. When they disappear with the rental revenues, the veteran is left with liability for the intervening house payments, and the loan usually is foreclosed.

Although H.R. 2672 keeps the assumability feature in place, it provides better protection for the veteran by requiring new credit underwriting on prospective purchasers who wish to assume the original loan. It further provides the veteran with automatic release from liability so long as the lender is advised, and the properly qualified purchaser agrees by contract to assume responsibility for the loan. If the lender determines that the loan is not current or that the purchaser is not creditworthy, the lender will notify the veteran and the VA. The veteran may appeal the determination to the VA Administrator under regulations promulgated by VA. Should the Administrator determine that the sale meets the requirements, the lender shall approve the transfer and the veteran shall be relieved of all liability. The Committee has no objection to the delegation by the Administrator of the authority to make this appellate decision to the local VA loan guaranty officer.

The bill also provides that the lender may demand termination of the loan if the sale occurs and the purchaser does not meet the requirements, or if the veteran fails to notify the lender of the sale.

Lastly, if the lender knowingly fails to notify the Administrator of a sale transaction, the lender will be liable for any damage sustained as a result of such failure.

The Committee notes that procedures currently exist for releasing the veteran from liability. However, many veterans are not aware of them and have been seriously hurt financially as a consequence. It is clear that tighter controls are warranted.

Occupancy Requirements

The Honorable Marvin Leath testified before the Subcommittee on April 22, in favor of H.R. 1452, which he introduced earlier in the year. Under current law and implementing regulations, a veteran or service member must physically occupy the property in order to be eligible for refinancing of a VA home loan. This has resulted in hardship and inequity for many home owners, such as active duty military and foreign service personnel, who might be residing abroad temporarily, but who still regard the property as their home. Some veterans with loans bearing a high interest rate are ineligible to refinance a VA loan at the lower rates prevailing in today's market. The result is clearly inequitable, and may have even contributed to some foreclosures which a lower monthly payment might have averted.

H.R. 2672 permits veterans to refinance their VA home loans regardless of personal occupancy. In addition, the reported bill would permit loan originations for active duty servicemen so long as the veteran's spouse occupies the home. Many times, a family may choose not to follow an active duty serviceman during a specific tour of duty. The serviceman in those circumstances today is not eligible to buy a home under the VA Home Loan Guaranty Program because he does not meet their occupancy requirements.

Loan Guaranty Formula

Under present law, if a borrower defaults on a loan guaranteed by the VA, the VA will pay a lender 60 percent of the loan amount, up to a maximum of $27,500. During the Subcommittee hearings of April 9, April 22, and May 29, a number of representatives from the mortgage banking, home building and real estate industries, and veterans organizations testified in favor of increasing the loan guaranty maximum to $36,000. Some even proposed to index the maximum guaranty amount to other economic indicators. They testified that the current cap of $27,500 has not been increased since 1980, and has not kept pace with the general rise in prices in the housing market.

The Committee is concerned that the present structure of the loan guaranty formula exposes the Loan Guaranty Revolving Fund to an unacceptably high risk at the lower end of the market, where a disproportionate number of foreclosures occur. Current law provides a 60 percent guaranty up to $27,500. This means that a veteran with a $50,000 loan and a veteran with a $110,000 loan both can end up owing the Federal Government $27,500. The exposure of both the government and the veteran, in other words, is greater than the amount of the loan truly justifies.

A study by the Congressional Research Service, dated May 27, 1987, notes that the present guaranty "enables the veteran to obtain a loan of up to $110,000 with no down payment. During calendar year 1986, nearly 74 percent of the VA-guaranteed loans were made without a down payment from the veteran. The average purchase price and loan amount was $66,104. Thus the VA guarantee provided lenders with protection for nearly 42 percent of the loan amount. It could be argued that the VA loan guaranty is too high. In general, mortgage lenders require borrowers to purchase mortgage insurance if the borrowers make downpayments of less than 20 percent."

The Mortgage Insurance Companies of America (MICA) advised the Committee in a statement furnished for the hearing record of June 23, 1987 that in the vast majority of defaults covered by private mortgage insurance, the insurer exercises the option of paying the percentage portion (usually 20 to 25 percent of the total loan amount) and leaving title with the lender. The private mortgage insurance industry has found that the simple fact that this option exists for the insurer places pressure on the lender to assume the role of a coinsurer and to underwrite the loan so as to minimize the likelihood of foreclosure. Mr. Earl Corkett, President of MICA also said, "With the expansion of the secondary market, however, the mortgage insurer often finds that the lender does not perceive the consequence of poor underwriting for loans originated for sale to be the same as it would for loans the lender keeps in portfolio. It is becoming common for lenders during the origination process to be primarily concerned with whether the loan meets the insurer's requirements and whether the loan, along with its servicing, can be sold in the secondary market. When the income from origination of the loan is more important to the lender than the long-term yield of the asset, the risk sharing between insurers and lenders is reduced."

H.R. 2672 changes the loan guaranty formula from 60 percent of the conventional housing loan up to $27,500 to 40 percent of the loan up to $40,000. The current formula is set up in such a way that veterans with a $50,000 loan can end up with as great a debt as veterans with a $110,000 loan. The proposed formula will help to correct this inequity. In addition, it will limit unnecessary risks to both the borrower and the Revolving Fund. The Congressional Budget Office estimates that this change in the guaranty formula will save $33 million over a three year period. These savings will be used by the Committee to meet, in part, its reconciliation targets.

It should also be pointed out that a 40 percent guaranty would continue to provide better credit protection for the lender than is currently available under conventional loans, which generally require a 20-25 percent downpayment.

The reported bill changes the loan guaranty formula for manufactured housing from 50 percent to 30 percent of the loan. The maximum guaranty entitlement remains at $20,000.

Appraisals

The Honorable Doug Barnard, Jr., Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, testified on April 9, before the Veterans' Affairs Subcommittee on Housing and Memorial Affairs. Congressman Barnard reported on a year-long investigation which his Subcommittee had made into the Nation's real estate appraisal system, with particular emphasis on how this affects the VA Home Loan Guaranty Program. The investigation report concluded:

"That faulty and fraudulent real estate appraisals have become an increasingly serious national problem; that their harmful effects are widespread, pervasive, and costly; that they have contributed directly to the insolvency and problem status of hundreds of the nation's financial institutions and have helped cause billions of dollars in losses to lenders, private mortgage insurers, investors, and Federal insurance and guarantee funds."

Subsequent to the investigation, the VA participated with other Federal and private entities to institute much needed reforms in the real estate appraisal process. For example,

—The Veterans Administration, Department of Housing and Urban Development/Federal Housing Administration (HUD-FHA), Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) have developed a common appraisal form which is now in use. The VA also tightened its appraisal-related underwriting procedures and monitoring requirements.

—The VA has become an active participant in a new federal interagency task force that is attempting to fashion common federal solutions to appraisal abuses;

—The VA has emphasized to its field stations that VA appraisals intended for FHA insuring purposes should be subject to the same quality controls as those intended for VA financing;

—Appraiser-proposed increases in market value on VA guaranteed properties must be accompanied by adequate documentation, including supervisory concurrence when the increase is 5 percent above the original market value;

—Field stations guidelines concerning review of appraisal reports were expanded in March 1986. Field stations are now required to submit to the VA's central office a year-end written report which will allow headquarters to monitor field station supervision of fee appraisers. The report includes negative work quality findings noted during field station staff review and disciplinary actions, i.e., written admonishments, temporary suspensions, and removals, taken against fee appraisers.

—On January 8th of this year, the VA amended its Privacy Act regulations so that it could share with FHA, Freddie Mac, lenders and others, information on removal actions concerning fee appraisers identified with incompetence, malfeasance, or practices detrimental to the interest of the Government, purchaser or lender. In addition, the VA now notifies state licensing agencies if appropriate, and the professional appraisal organizations with which the fee appraiser is identified.

Congressman Barnard testified that these improvements should result in a much sounder VA appraisal system.

Two additional opportunities for improving the VA appraisal process have been incorporated into H.R. 2672. First, since there are no uniform industry procedures for licensing real estate appraisers, the bill outlines specific qualifications for VA fee-basis appraisers. These include successful completion of a written test, submission of a sample appraisal, evidence of an appropriate level of experience as an appraiser, and submission of recommendations from other appraisers. By applying a more stringent and consistent set of professional standards to its fee-basis appraisers, the VA should be able to achieve overall improvements in the quality of appraisals on prospective veteran loans.

H.R. 2672 also authorizes appraisal reports to be sent directly to certain lenders for expedited review and reasonable value determination. Under current procedures, the appraisal must first be sent to the VA for review and certification, and then forwarded to the lender. The bill would authorize appraisal reports to be sent directly to certain lenders for expedited review and reasonable value determination. Since 75 percent of all VA guaranteed loans are underwritten by automatic lenders, the new procedure will reduce the paperwork and processing time for a significant number of loans, will allow faster loan processing and with less frustration, and should free up VA personnel who presently review such appraisals and issue Certificates of Reasonable Value (CRV) for other critical activities, such as servicing on delinquent loans.

Housing Rehabilitation Loans

Several witnesses from community and industry groups testified before the Subcommittee with regard to problems in the management of VA-owned property. Many VA-owned properties have been allowed to fall into a state of disrepair. They in turn become a blight on the neighborhood, and may be difficult to sell. Although the VA may use money from the Loan Guaranty Revolving Fund to institute repairs, the property may still be subject to vandalism and deterioration while left unoccupied, and funds invested in repairs may never be recaptured when the property is eventually disposed of.

As an alternative to this situation, H.R. 2672 authorizes the VA to make additional loans to prospective purchasers for the purpose of restoring such properties to a habitable state. Funds would be released to the purchaser in increments, as rehabilitation progresses. The Committee believes that rehabilitation loans will be a good investment for the Loan Guaranty Revolving Fund; that they will make previously hard-to-sell properties more attractive and affordable to prospective buyers; and that they will help resolve some of the legitimate community concerns expressed over the maintenance of VA-owned properties.

Veterans' Job Training Act

During the hearing of April 9, representatives of both a private concern and a veterans organization testified that they would like to cooperate with the VA in a type of venture that would offer training in the building trades to unemployed veterans. H.R. 2672 encourages this practice by providing up to a 25 percent discount on houses sold to organizations which agree to use veteran employees in a program of job training under the Veterans' Jobs Training Act to rehabilitate the properties, and who give preference to veterans in selling the rehabilitated property. In order to protect the interest of veterans whose foreclosed properties are disposed of in this manner, the liability of the former veteran homeowner will be reduced commensurate with the discount given.

Homeless Veterans

During the hearing of April 9, the Honorable Lane Evans, representatives of homeless veterans, and others testified about the needs of homeless veterans. Although estimates on their actual number vary, it is clear that a significant portion of the homeless population—perhaps a third or more—are veterans. Through existing administrative procedures, several VA Regional Offices have been working with local groups to make vacant VA properties available, at reasonable prices, for use as shelters. H.R. 2672 encourages veterans organizations and political subdivisions to acquire hard-to-sell VA foreclosed properties in order to provide shelter to homeless veterans and their families. The VA is authorized to discount such properties, provided that the interests of the VA Home Loan Guaranty Program as a whole and the defaulting veteran are protected, that local zoning laws are respected, and that intended use of the property is compatible with the area where it is located. This will give legislative sanction to the concept of working with local groups to assist homeless veterans, and at the same time avoid adversarial situations between the VA and either the defaulting veteran or the community.

Property Acquisition Guidelines

The Administration's budget request to the Congress submitted February 1, 1984, contained a proposal recommended by the Grace Commission that, effective March 1, 1984, the Veterans Administration would no longer respond to defaults on VA guaranteed loans by acquiring foreclosed properties. Rather, following foreclosure, the VA would pay all lending institutions an amount equal to the VA's guaranty. The lending institutions would be required to dispose of property that the VA did not acquire. In addition, the VA would be required to liquidate its loan portfolio and sell all properties currently on hand. The Grace Commission reportedly based its recommendations on the high foreclosure and VA property acquisition rate in recent years which was depleting VA loan guaranty revolving funds. This policy change was construed as a budgetary savings by the Administration. The Grace Commission recommendation was rejected by the Committee. Although the implementation would have resulted in initial savings, these savings would have been short-term in nature and would have resulted in increased outyear costs when compared with continuing with current policy.

At Committee hearings in 1984, a Congressional Budget Office (CBO) analyst indicated the major inefficiency in the VA loan guaranty program's operation was that all loans under foreclosure and all real property available for sale by the VA were handled in a like manner. CBO concluded that the VA could only reduce its financial loss on transactions if it made a case-by-case comparison of the full financial consequence of all alternative actions.

The Deficit Reduction Act of 1984 required the VA to analyze defaulted loans on a case-by-case basis and to stop acquiring property where it would be less costly to pay the guaranty. This provision requires the Administrator to calculate the estimated costs of acquiring property including management, administrative and selling costs. The net loss resulting from the proposed acquisition and payment of the lender's claim would then be compared with the Administrator's liability under the loan guaranty. Only in cases where the net loss is less than the guaranty would the Administrator be authorized to acquire the property. It was the Congress' understanding that this practice benefited veterans as well as lenders by permitting the orderly disposal of the property securing a VA guaranteed loan. This restriction on the VA's authority is scheduled to expire September 30, 1987.

Mortgage bankers and others in the housing industry made strong representations at the hearings of April 22 and May 13, regarding the impact of high foreclosure rates on their businesses. Certain areas of the country such as Houston, Texas, have been especially hard-hit. Testimony expressed particular concern over the increased number of "no-bid" cases which have resulted. (When a VA loan goes to foreclosure, the VA must determine whether to acquire the property or pay the guaranty (up to $27,500) and leave the property in the hands of the lender. The latter situation is referred to as a no-bid case.)

Although the VA acquires the foreclosed property in 85 percent of the cases, lenders have been experiencing a higher than expected number of no-bid cases, in part because of the high foreclosure rate. The effects of this increase are particulary noticeable in areas like Houston, which have experienced severe dislocations in the economy and the housing market.

H.R. 2672 extends the property acquisition guideline for two years, until September 30, 1987, with some modification to the calculation which the VA makes when determining whether a property will be treated as a no-bid case. Under the new formula, interest resulting from exercise of lender forebearance at the VA's request, delays in the foreclosure process caused by the VA, or commencement of voluntary bankruptcy proceeding by the veteran, will not be included in the no-bid calculation.

VA Financing on Vendee Loans

Prior to 1984, the VA financed the sale of approximately 92 percent of all foreclosed properties. By offering financing on properties which it holds for sale, the VA is able to dispose of many properties in a timely manner at the appraised value. The Deficit Reduction Act of 1984 reduced the number of properties on which VA financing could be offered. Current law requires the VA to sell at least 60 percent but no more than 75 percent of its acquired properties with VA vendee financing. The VA routinely discounts cash sales at 10 percent or more. This provision is scheduled to expire on September 30, 1987. As part of the Committee's efforts to meet its reconciliation target, these percentages will be changed to a range of 50 to 65 percent for three years. Initially, the Subcommittee submitted the changes for one year only, based on previous CBO cost estimates. It was estimated at that time that savings on a one-year basis would be $42 million the first year, but that there would be a cost of $40 million the second year. The three-year approach was estimated by CBO to save $42 million the first year, $24 million the second year, and $10 million the third. This approach was adopted to enable the Committee to achieve its reconciliation targets. The Committee, however, will continue to seek alternatives, noting that, while this proposal will temporarily produce a net reduction in outlays, it will cost the Government more in the outyears if a permanent change were authorized.

Loan Origination Fee

In 1966, Congress approved the Veterans' Readjustment Benefits Act of 1966, better known as the "Cold War GI Bill." This act, among other things, made servicemen and post-Korean veterans who had served after January 31, 1955, eligible for VA guaranteed loans. Although the benefits were similar to those available for World War II and Korean veterans, there was one noticeable difference in that the post-Korean loan program was subject to a one-time funding fee of one-half percent. In other words, a funding fee was imposed in recognition of the distinction between "hot war" and "cold war" service.

The elimination of the funding fee was a natural outcome of the developments in southeast Asia, and was effected by P.L. 91-506 on October 23, 1970.

The President's FY 1983 budget contained a proposal to reinstate the one-half percent origination fee. In order to meet the targets imposed upon it by the Congress, the Committee did not object to the funding fee, but did recommend that service-disabled veterans be exempted. This proposal was enacted in P.L. 97-253, which became effective October 1, 1982.

Congress later addressed issues involving deficiencies in the Loan Guaranty Revolving Fund caused by the high unemployment rate and subsequent increases in foreclosures by enactment of the Deficit Reduction Act of 1984, P.L. 98-369. In addition to requiring certain administrative reforms in the VA Home Loan Guaranty Program, the targets imposed on the Committee by the Congress to help reduce the deficit required the loan origination fee to be increased to 1 percent and required that these funds be deposited in the Loan Guaranty Revolving Fund. The bill included a sunset provision under which the 1 percent origination fee would expire on October 1, 1987.

Administration budgets for fiscal years 1986 and 1987 proposed increases in the funding fee of 5 percent and (on a graduated basis) 3.8 percent, respectively. Such action was totally unacceptable to the Committee. Congress expressed its sense that the fee not be increased further in section 409 of P.L. 99-576, the Veterans Health Care and Benefits Improvements Act of 1986.

The President's FY 1988 budget, however, again called for an increase in the origination fee, to 2.5 percent, effective June 1, 1987. This proposal, if enacted, would have resulted in an average fee of $1,500 for each loan made—up from $600—just for the privilege of using the program. The proposal was given no consideration by the Committee.

Raising the fee would prevent a substantial number of potential veteran homebuyers from participating in the program. According to the Congressional Budget Office, an increased rate of 2.5 percent could result in 20,250 fewer veterans using their entitlement to purchase a home in FY 1988. The Committee notes that interest rates are at one of their lowest points and that some veterans are in a position for the first time to buy their own homes. To now impose an increased user fee on these potential homebuyers would place an undue burden upon them—in particular on Vietnam era veterans, who obtain 42.1 percent of all VA guaranteed home loans.

H. Con. Resolution 79 was passed unanimously in the House of Representatives on April 27, 1987, to reaffirm the sense of Congress on this issue. Testimony from veterans organizations and from the vast majority of other witnesses at the Subcommittee hearings clearly established that there should be no further increase in the loan origination fee.

H.R. 2672 extends the current 1 percent loan origination fee for two years, to September 30, 1989. The Committee notes that it will continue to examine alternatives to the loan origination fee.

H.R. 2672 also corrects an inequity in application of the loan origination fee to a veteran who is also the surviving spouse of a deceased veteran whose death was service connected. A surviving spouse is exempt under current law, but due to a technicality the exemption does not apply in cases where the surviving spouse is also a veteran with eligibility in his or her own right.

American Samoa

The Honorable Fofo I.F. Sunia testified on April 9, 1987, on behalf of a proposed direct loan program for U.S. veterans in American Samoa. Although a relatively high proportion of the population of American Samoa serves in the U.S. military, the loan guaranty benefit is not viable there due to the lack of a secondary mortgage market. H.R. 2672 authorizes a direct loan program up to $33,000, to the extent that matching funds are made available by the government of American Samoa. It is the Committee's belief that American Samoa already qualifies as an area where the Administrator is authorized to make direct loans, because it is difficult for veterans to obtain housing loans in this area. The Committee, by enacting this legislation, notes its strong support for this existing authority. It is offering this amendment as a means of encouraging the Administrator to consider making such loans. If the Administrator does not exercise his existing authority or the additional authority contained in this bill, the Committee may consider further legislation making such loans an entitlement.

Demonstration Project for Adjustable Rate Mortgages

Volatile interest rates reduce housing activity. Interest rates have risen from 8 1/2 percent to 10 percent this year. Therefore, the Committee believes that the VA should establish a two-year pilot program for Adjustable Rate Mortgages (ARM) at one regional office. Initial interest rates for an adjustable rate mortgage are typically 1 percent to 2 percent lower than a fixed rate loan. The National Association of Homebuilders estimates that this results in a savings of as much as $100 in monthly mortgage payments on a $70,000 loan. The demonstration project is to be carried out in a manner similar to FHA's adjustable rate mortgage program, which allows interest rates to escalate no more than 1 percent per year with a cap of 5 percent over the life of the loan. In addition, H.R. 2672 would require the Administrator to furnish the Congress with a report by December 31, 1989, containing a description of the results of this project and furnish a report yearly thereafter with respect to the default rate.

Loan Portfolio Sales

Because of the high foreclosure rate over the past several years, and in conformance with Administration efforts to reduce short-term outlays, the VA has been pressured by the Office of Management and Budget to sell its loan portfolio without regard to market conditions. In its FY 1988 budget, the Administration proposed yet another revision to its loan sales procedures which could seriously impair the long-term solvency of the Loan Guaranty Revolving Fund. This proposal would require the VA to sell all of its loans without repurchase agreements.

On September 25, 1986, the General Accounting Office submitted to the Committee on Government Operations a report entitled "Loan Asset Sales: OMB Policies will Result in Program Objectives Not Being Fully Achieved." The report contains the following observations, which are directly relevant to the potential impact of this proposal on the VA Loan Guaranty Revolving Fund:

"OMB's guidelines to agencies for loan asset sales require that all sales be made without future recourse to the federal government. They also require that responsibility for collecting and servicing loan assets be transferred to the purchaser when a loan asset is sold. We believe that these requirements will adversely affect the loan assets' marketability and the potential net proceeds from their sale. Furthermore, OMB proposes to treat the loan asset sales proceeds as borrowings if sales are made with recourse to the government, contrary to normal budgetary treatment of guarantees. As a result of these policies, the government's best interests will not be protected and the objectives to the loan asset sales pilot program will not be fully achieved."

Earlier this year, VA officials indicated that this change in policy would result in an average loss of 30 percent of the face value of loans sold from its portfolio. In the first "trial" sale without recourse (repurchase agreements), the VA received offers as low as 55 cents on the dollar, and in another instance the offer was 15 cents on the dollar. Although the VA did not accept these offers, the "fire sale" mentality reflected in the OMB guidelines poses a further threat to the long-range income of the VA loan program.

On June 16, the Committee on Government Operations approved and adopted a report entitled, "OMB's Guidelines for Sales of Existing Loans as Currently Written Will Not Produce the Best Results for the Government." In its summary, the report stated that the government could lose millions of dollars because OMB's guidelines do not permit agencies to sell loans under any sales method other than nonrecourse. Therefore, it seemed appropriate that the bill as reported by the Subcommittee simply require that the VA continue its previous policy with regard to loan sales, which was to sell loans with recourse.

A year ago, this provision would have cost nothing. However, without any consultation with this Committee, OMB changed its accounting procedures, and the Congressional Budget Office concurred. Under these new accounting rules the sale of loans with recourse is considered to be the same as borrowing from the public. Because of this, proceeds would be credited to financing the debt rather than being credited to the fund as offsetting collections. On paper, therefore, the sales would become losses.

Before this change in accounting procedures, the provision originally contemplated for H.R. 2672 had no cost impact whatsoever. Under the new procedures, it would cost $680 million in the first year. Thus, the Committee was forced to withdraw the provision regarding loan asset sales in order to meet its reconciliation targets. Notwithstanding this action, the Committee still regards the sale of loans with recourse as an important factor in operating the loan guaranty program in accordance with good business practices. The Subcommittee will pursue this matter with CBO, OMB and the Budget Committee next year.

In the meantime, the Committee has substituted a Sense of the Congress provision regarding financial management of the Loan Guaranty Revolving Fund. In essence, this provision outlines how these new accounting procedures have had a significant effect and have seriously limited the policy-making function of the Congress. In addition it states that continued efforts to achieve short-term savings in the Veterans Administration Loan Guaranty Revolving Fund are compromising the Administrator's ability to soundly manage the financing of the program, thereby jeopardizing its future. Lastly, it expresses the Sense of the Congress that CBO ought to reverse its decision on accounting for loans sold with recourse by the Veterans Administration, and that consistent with section 7 of the concurrent resolution on the Budget for fiscal year 1988, any changes in the assets sales policy of the Veterans Administration should not be considered in future budget resolutions as a means of achieving deficit reduction.

SECTION-BY-SECTION ANALYSIS

Section 1.— States the short title of the bill as the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987."

Section 2.— States the Sense of Congress regarding the adverse impact of certain accounting changes on the long-term solvency of the program.

Section 3.— Subsection (a). Amends 38 U.S.C. 1829(c) to extend the sunset for the 1 percent VA loan fee from September 30, 1987, to September 30, 1989.

Subsection (b). Makes a technical amendment to 38 U.S.C. 1829(b) to exempt from paying the 1 percent loan fee any surviving spouse of a veteran who died from a service-connected cause, including a person who died while on active duty. As currently drafted, a surviving spouse who is also a veteran is not exempt from the fee.

Section 4.— Subsection (a). Amends 38 U.S.C. 1803 (a)(1) to reduce the percentage of a home loan that the Administrator may guarantee from 60 percent to 40 percent. Amends 38 U.S.C. 1810(c) to change the maximum home loan guaranty entitlement of $27,500 to $40,000.

Subsection (b). Amends 38 U.S.C. 1819(c)(3) - (4) to reduce the percentage of a manufactured housing loan that the Administrator may guarantee from 50 percent to 30 percent. The maximum loan guaranty entitlement remains at $20,000.

Section 5.— Amends 38 U.S.C. 1816(a) to require that, upon receiving a notice of default from the holder of a guaranteed loan, the local VA office shall contact the veteran and advise him or her of alternatives to foreclosure. These alternatives include providing the Administrator a deed in lieu of foreclosure, VA refunding the loan, and the relief provided by section 12 of this bill. In the event of a foreclosure, the VA office must notify the veteran of the VA's and the veteran's liability, and methods of reducing the veteran's liability to VA.

This section also requires that the Administrator, to the extent of available appropriations, take necessary steps to assure that sufficient personnel are available to administer this section.

The amendment made by this section requires the VA, or the loan holder, to notify veterans of various procedures that might, in appropriate circumstances, be used as an alternative to foreclosure. While the Committee encourages the VA to use these foreclosure alternatives in appropriate cases, the final decision on whether or not to approve using such a procedure rests with the VA. The VA must balance the needs and circumstances of the veteran in default with the needs of insuring the solvency of the Loan Guaranty Revolving Fund and integrity of the housing loan program. In recent years, a number of Federal appellate courts have ruled that the VA's decision on whether or not to refund a loan is not subject to judicial review. See *Simpson* v. *Cleland,* 640 F.2d 1354 (D.C. Cir. 1981); *Rank* v. *Nimmo,* 677 F.2d 692 (9th Cir. 1982), *Bright* v. *Nimmo,* 756 F2d 1513 (11th Cir. 1985). This amendment is not intended to change these rulings. Likewise, decisions on granting relief under the new section 1816A of title 38, United States Code, added by section 12 of this bill, are not subject to judicial review. While unaware of any court decisions on this matter, the Committee assumes the same would be true with regard to the VA accepting a deed in lieu of foreclosure.

Section 6.— Subsection (a). Amends 38 U.S.C. 1816(c)(1)(D)(ii) to provide that, in computing the veteran's "total indebtedness," the Administrator shall exclude interest which accrues during a delay caused by the VA, during periods of forbearance granted at the VA's request or when the veteran applies for protection under the bankruptcy laws. Total indebtedness is one factor the VA must take into account in determining whether the VA will accept conveyance of the property from a loan holder, and in computing the VA's guaranty liability. Notwithstanding this change in the definition of total indebtedness, the bill would make the Administrator liable for interest which accrues because of an unreasonable delay caused by the Administrator in the liquidation sale of the property.

Under the new paragraph 10(B) of 38 U.S.C. 1816(c), added by section 6(a) of the bill, a loan holder may include in its guaranty claim interest which accrues after the cutoff date established under paragraph 10(A) only if the foreclosure was delayed by the VA itself. The Committee intends that this provision be narrowly construed. Interest which is not considered for property acquisition purposes should not be included in the guaranty claim during periods of forebearance of for the time normally required for a loan holder to comply with VA's administrative requirements. If, however, a holder has given the VA timely notice of a proposed foreclosure sale, and the VA is unable to act; e.g., supply bidding instructions in time for the sale to take place as scheduled, the Committee believes equity requires that the holder be permitted to claim this additional interest.

Subsection (b). Amends section 1816(d)(1) which authorizes the Administrator to provide VA financing on not more than 75 percent nor less than 60 percent of properties sold by the VA. During fiscal years 1988, 1989 and 1990, these percentages would be changed to 65 and 50 percent, respectively.

Subsection (c). Provides that the provisions governing VA procedure in the event of default and the authority to offer financing on properties sold shall cease to have effect on October 1, 1989.

Subsection (d). Provides that the changes made by subsection (a) shall apply to defaults which occur on or after 30 days after the date of the enactment of this Act.

Section 7.— Adds a new subsection (1) to 38 U.S.C. 1811 which would authorize the Administrator to make direct housing loans to veterans residing in American Samoa. The amount of the loan would be equal to the amount provided to the veteran by the Government of that territory up to the current direct loan maximum of $33,000.

Section 8.— Subsection (a). Amends 38 U.S.C. 1810(e)(1)(B) and 1819(a)(4)(A)(ii) to repeal the requirement that a veteran who refinances an existing VA guaranteed home or manufactured housing loan with a new loan at a lower interest rate must still occupy the property securing the loan. Also makes a perfecting amendment with regard to the occupancy certification now required by 38 U.S.C. 1819(e)(5).

Subsection (b). Amends 38 U.S.C. 1804(c) to provide that a person on active duty in the Armed Forces will, for VA housing loan purposes, be deemed to occupy a property if the servicemember's spouse occupies the property. Any required occupancy certification may be made by the servicemember's spouse. Also makes perfecting amendments to 38 U.S.C. 1810(a) and 1819(a)(5)(A)(i).

Section 9.— Subsection (a). Authorizes the Administrator to sell properties acquired by the VA under the home loan program for use as shelters for homeless veterans and their families. Properties may only be sold to certain approved organizations or to political subdivisions. The entity acquiring the property must comply with all applicable zoning laws. Before selling a property, the Administrator must determine that there is little likelihood of selling the property for a price sufficient to reduce the veteran's foreclosure liability, and that the sale will not adversely affect the solvency of the Loan Guaranty Revolving Fund, the VA's ability to fulfill its statutory mission, or its ability to carry out other required functions.

Subsection (b). Authorizes the Administrator to sell properties acquired by VA under the home loan program to organizations who employ veterans in a program of job training under the Veterans' Job Training Act (VJTA). These properties may be sold at a discount of up to 25 percent of the fair market value. The purchaser must agree to use veterans in a VJTA program to rehabilitate the properties, and to provide veterans with a preference in the resale of the properties. The liability of a veteran whose former home is sold under this authority shall be reduced by the amount of any discount.

Section 10.— Adds a new paragraph 4 to 38 U.S.C. 1816(d) to authorize the Administrator to include, as part of the loan (generally known as a "vendee loan") to finance the purchase of a property from VA, an amount to pay for rehabilitating the property.

Section 11.— Subsection (a). Revises 38 U.S.C. 1817 to require that whenever a veteran sells a property subject to a VA guaranteed loan to a person who assumes such loan, the veteran notify the loan holder in advance, and that the holder approve the assumer from a credit and income standpoint. If the assumer is disapproved by the holder, the decision could be appealed under regulations promulgated by the Administration. If the purchaser is approved on appeal to the Administrator, the veteran would be released from liability to the VA. In such a case, the loan would be freely assumable by the purchaser. If, however, the sale takes place without approval by the lender or the Administrator, the holder may declare the entire loan due and payable.

Subsection (b). Provides that the revised provisions of section 1817 shall apply to loans for which commitments are issued on or after 90 days following enactment of this bill.

Section 12.— Subsection (a). Adds a new section 1816A to title 38, United States Code, which authorizes the Administrator to assist a veteran whose VA guaranteed loan (called the "primary loan") has been in default for at least 6 months as a result of the veteran being unemployed or having had a substantial reduction in family income. Before a loan is made under this section the Administrator must determine that the veteran will be able to resume payments on the primary loan within 6 months. The assistance provided under this section is in the form of an advance of up to $8,400 to the holder of the primary loan. This advance shall bear interest at the rate on the primary loan, or at the maximum interest rate for VA loans at the time of the first advance whichever is lower. The advance must be repaid within 15 years. The Administrator's decisions under this new section shall not be subject to judicial review. The authority under the new section shall terminate after 2 years.

Subsection (b). Provides that the new section 1816A of title 38, will take effect 60 days following enactment.

Section 13.— Subsection (a). Amends 38 U.S.C. 1831(a)(1) to add certain qualifications for VA appraisers. These include passing a written test, submitting a sample appraisal, and submitting recommendations from other appraisers.

Subsection (b). Amends 38 U.S.C. 1831 to authorize certain lenders approved by the Administrator to determine the reasonable value of a property for VA loan purposes without VA staff review prior to loan closing. Also makes a perfecting amendment to 38 U.S.C. 1810(b).

Section 14.— Adds a new section 1819A to title 38, United States Code, which provides that, if the VA refuses to accept an offer by a veteran to convey the property which secures a guaranteed loan in default, the veteran's debt to the Government following foreclosure may not include interest and other costs incurred more than 30 days after the veteran's offer.

Section 15.— Subsection (a). Requires the Administrator to carry out a demonstration project at one regional office during fiscal years 1988 and 1989 on adjustable rate mortgages similar to the manner in which the Secretary of Housing and Urban Development insures such loans under section 251 of the National Housing Act.

Subsection (b). Requires the Administrator to furnish a report to the Congress no later than December 31, 1989 on the results of this demonstration project and requires annual reports thereafter with respect to the default rate.

OVERSIGHT FINDINGS

The Committee on Government Operations issued House Report 99-891, "Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market," on September 25, 1986, and House Report 100-200, "OMB's Guidelines for Sales of Existing Loans as Currently Written Will Not Produce the Best Results for the Governmemt," on July 1, 1987. These reports were very helpful to the Committee on Veterans' Affairs in formulating H.R. 2672.

INFLATIONARY IMPACT STATEMENT

The reported bill will have no inflationary impact.

Congressional Budget Office Cost Estimate

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

July 23, 1987

Honorable G.V. Montgomery
Chairman
Committee on Veterans' Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your request, CBO has prepared the attached cost estimate for H.R. 2672, the Veteran's Housing Rehabilitation and Program Improvement Act of 1987, as ordered reported by the House Committee on Veterans' Affairs, July 22, 1987.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

Edward Gramlich

Edward M. Gramlich
Acting Director

cc: Honorable Gerald B.H. Solomon
Ranking Minority Member

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 23, 1987

1. BILL NUMBER: H.R. 2672

2. BILL TITLE:

   Veterans' Housing Rehabilitation and Program Improvement Act of 1987.

3. BILL STATUS:

   As ordered reported by the House Committee on Veterans' Affairs, July 22, 1987.

4. BILL PURPOSE:

   To improve veterans' housing programs.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

(By fiscal years, in millions of dollars)

	1988	1989	1990	1991	1992
Budget Authority	-52	-43	0	0	0
Estimated Outlays	-49	-40	-25	14	1

The cost of this bill would fall in budget function 700.

Basis of Estimate

The following section-by-section cost analysis addresses only those sections of the bill that could be expected to have a significant impact on the federal budget.

Section 3. This section would extend for two years the requirement that veterans and others obtaining VA guaranteed or direct loans pay a one-time fee of 1 percent of the loan principal to partially offset the agency's costs.

The CBO baseline and the 1988 budget resolution assume the continuation of the fee authority through 1992. Therefore, this provision would have no effect on either of these measures of federal spending. The CBO baseline assumes an estimated $241 million in fee collections in 1988 and $221 million in 1989.

Section 4. This section would change the guaranty provided by the VA on conventional- and manufactured-home loans. The current guaranty on conventional-home loans of 60 percent of the loan principal up to a maximum of $27,500 would be reduced to 40 percent of the loan principal up to $40,000. For manufactured-home loans, the guaranty would change from 50 percent of the loan up $20,000, to 30 percent up to $20,000.

	(By fiscal years, in millions of dollars) 1988	1989	1990	1991	1992
Budget Authority	-4	-14	0	0	0
Estimated Outlays	-4	-14	-18	-21	-26

Many assumptions had to be made in connection with this estimate, the most important of which concerns the response of the Government National Mortgage Association (GNMA) and of lenders to these changes. Since the vast majority of lenders make VA loans in anticipation of including them in pools of loans used to collateralize mortgage-backed securities (MBSs) guaranteed by GNMA, the eligibility requirements that GNMA establishes for MBS pool loans become the restrictions that most lenders apply to VA loans. Currently, GNMA requires that the sum of the guaranty and the downpayment equals at least 25 percent of the loan principal and that the principal not exceed $135,000. The estimate above assumes that these requirements would not be changed in response to enactment of this provision. The estimate further assumes that lenders would not change their underwriting practices as a result of the provision.

There could, however, be justification for additional restrictions to be placed on VA loans by both GNMA and lenders. It is estimated that the number of foreclosures on which the VA refuses to bid at auction would jump from the current level of 15 percent to at least 25 percent. The increase in no-bids would significantly increase lenders' default costs on VA loans and could raise the cost to GNMA of its guaranty of VA-mortgage-backed securities. If these costs grow dramatically, GNMA and mortgage lenders could tighten the underwriting and downpayment requirements for new VA loans. A significant change in requirements could completely invalidate the above estimate; however, the degree and likelihood of such a change cannot be predicted.

Reducing the guaranty from 60 percent to 40 percent would not force any veterans with full entitlement available to make downpayments in order to qualify under current GNMA restrictions. In fact, veterans seeking mortgages of between $110,000 and $135,000, who are required to make downpayments under current law, would not be required to do so under this provision because of the substantial increase in the maximum guaranty level. The estimate assumes that, as a result, the number of loans in the $110,00 to $135,000 range would increase by about 50 percent. This increase, combined with a small rise in the average value of loan originations, would generate additional origination fee collections of $3 million in 1988, rising to $19 million in 1992.

Based on data from foreclosures under current law, it was estimated that, in foreclosures of loans originated after October 1, 1987, the rate at which the VA would refuse to bid at auction would increase from the current level of 15 percent to approximately 25 percent. The average guaranty payable by the VA under these circumstances is estimated to decrease to about 85 percent of its current projected level. These effects are responsible for the remaining estimate of savings related to Section 4.

Section 6(a). This section would allow the VA to establish a cutoff date for calculating accrued interest on VA-guaranteed mortgages in foreclosure when the VA or the lender is responsible for an unreasonable delay in the foreclosure proceedings. This interest calculation would be used both in the determination of the price to be bid at the foreclosure auction and in the settlement of the claim with the lender.

This provision would reduce foreclosure costs to the VA and, thereby, would reduce outlays of the Loan Guaranty Revolving Fund. The language of section 6, however, leaves to the VA the responsibility of defining exactly how the cutoff date would be determined. Furthermore, there is no data available on the number of VA- or lender-caused delays in foreclosures or on the effect these delays have on foreclosure costs. Thus, it is not possible to estimate with any degree of certainty the amount of savings that might result from enactment of this provision.

Section 6(b). Under current law the VA cannot finance more than 75 percent or less than 60 percent of the sales of property that has been acquired from foreclosures of VA-guaranteed mortgages. This provision would change the range to not more than 65 percent nor less than 50 percent during fiscal years 1988-1990.

	(By fiscal years, in millions of dollars)				
	1988	1989	1990	1991	1992
Budget Authority	-42	-24	0	0	0
Estimated Outlays	-42	-24	-10	33	26

The primary effect of this provision is that it would result in the receipt by the VA of the cash value of certain acquired properties approximately one year earlier than otherwise projected. As soon as the VA obtains clear title on an acquired property, they can offer it for sale. If the property is sold for cash the VA recovers its cash value immediately. If, however, the VA finances the sale of that property with a vendee loan, the agency does not recover the cash value of the property until the loan is sold. The lag time in this process generally runs about a year.

The provision would generate some net savings. These are the result of the fact that the VA should realize a higher return from a cash sale of the property than would be realized from an equivalent vendee loan sale without recourse to the government.

Section 9. This section would authorize the VA to sell to organizations for the homeless VA properties that have been acquired through foreclosures of VA-guaranteed loans. The prices in such sales should reflect the best interests of homeless veterans and the federal government but could not be so low as to adversely affect the long- or short-term solvency of the Loan Guaranty Revolving Fund. The section would also authorize the VA to sell properties for 75 percent of the fair market value to organizations that would use the Veterans' Job Training Act program to renovate the properties.

Given the restrictions on sales described in the first part of section 9 and the VA's strong objection (in testimony of Grady Horton, Deputy Chief Benefits Director for Program Management, VA, before the Subcommittee on Housing and Memorial Affairs, House Committee on Veterans' Affairs, June 23, 1987) to the discounted sales program authorized in the second part, it was assumed that this authority would not be utilized to a sufficient extent to result in a significant cost.

Section 10. This section would authorize the VA to include in vendee loans additional funds to be used for the rehabilitation of the property.

In testimony before the Housing and Memorial Affairs Subcommittee on June 23, 1987, Grady Horton voiced the VA's strenuous objections to this provision. Based on this position of the VA, CBO assumes that this authority would be used to a nominal extent by the agency, if at all. Should the authority be used to any significant degree, it would increase default costs on vendee loans. The provision could also increase default rates and make vendee loans more difficult to sell, because loans made under this provision would have loan-to-value ratios in excess of 100 percent.

Section 11. This section would apply certain restrictions to the assumability of VA-guaranteed loans, with respect to loans originated after enactment of the bill. On future assumptions, which presently need not even be reported to the VA, it would have to be demonstrated that the loan is current and that the purchaser meets the same credit qualifications as were required of the veteran.

This provision would have a definite long-range savings impact from a reduction in defaults on assumed loans. However, because only assumptions of newly originated loans would be affected, the savings in any year within the projection period would not be significant.

Section 12. This section would establish a new program of mortgage assistance to veterans whose VA-guaranteed loans are at risk of foreclosure. In order to qualify for the program, a veteran would have to be at least six months delinquent on his mortgage but with a reasonable prospect of being able to resume full monthly payments within six months. The VA would be authorized to advance to such veterans, new loans of up to $8,400, which would be used to pay the arrearage on their existing mortgages and up to six future monthly payments. The VA would be authorized to make loans under this program only during fiscal years 1988 and 1989.

(By fiscal years, in millions of dollars)

	1988	1989	1990	1991	1992
Direct Loan Revolving Fund					
Budget Authority	0	0	0	0	0
Estimated Outlays	3	3	-1	-1	-*
Loan Guaranty Revolving Fund					
Budget Authority	-6	-5	0	0	0
Estimated Outlays	-6	-5	4	3	2
Net Budgetary Impact					
Budget Authority	-6	-5	0	0	0
Estimated Outlays	-3	-2	3	2	1

The VA currently has a program to assist veterans with VA-guaranteed loans at risk of foreclosure, under which the VA buys the delinquent loan from the lender and restructures the loan or offers additional forbearance. Under this program the VA acquires about 250 loans a year. Because the VA qualifies so few veteran-borrowers for the existing program, it was assumed that only 500 borrowers would be accepted each year for the new program.

The language of section 12 does not address the manner in which the new advances would be financed or the disposition of repayments of those advances. This estimate assumes that the advances would be made from the Direct Loan Revolving Fund and repayments would be deposited therein. The current appropriation language places a $1 million limit on direct loan obligations from this account. The estimate assumes that this limit would be raised to accommodate the new program loans.

The impact on the Loan Guaranty Revolving Fund would come from the elimination of the default costs for these loans in 1988 and 1989. In 1990 and beyond, the Fund would have to pay default costs, increased by the value of the advances, for those loans that go to foreclosure despite the assistance of the new program.

The existing loan acquisition program has a default rate of about 50 percent. Because the new program would have less stringent qualification standards, it was assumed that the new program would have a default rate of 60 percent.

An average advance of $7,000 was assumed in 1988 and of $7,200 in 1989, based on the further assumption that the average qualifying loan would be equal to the value of 7 delinquent payments and 6 future payments. The advances were assumed to be made at the current VA rate of 10.0 percent and were assumed to carry the maximum allowable term of 15 years.

6. ESTIMATED COST TO STATE AND LOCAL GOVERNMENTS:

The Congressional Budget Office has determined that the budgets of state and local governments would not be directly affected by enactment of this bill.

7. ESTIMATE COMPARISON: None.

8. PREVIOUS CBO ESTIMATE:

On July 23, 1987, CBO released a cost estimate of H.R. 2672 as ordered reported from the Housing and Memorial Affairs Subcommittee of the House Veterans' Affairs Committee. That version of the bill contained a provision requiring that VA vendee loan sales carry a guaranty against default. This provision, which was not included in the version of H.R. 2672 that was ordered reported by the full Committee, would have had the following impact on the federal budget:

(By fiscal years, in millions of dollars)

	1988	1989	1990	1991	1992
Function 700					
Budget Authority	680	680	662	621	559
Estimated Outlays	611	603	576	533	472
Function 900					
Budget Authority	-3	-9	-15	-22	-27
Estimated Outlays	-3	-9	-15	-22	-27
Net Budgetary Impact					
Budget Authority	677	671	647	599	532
Estimated Outlays	608	594	561	511	445

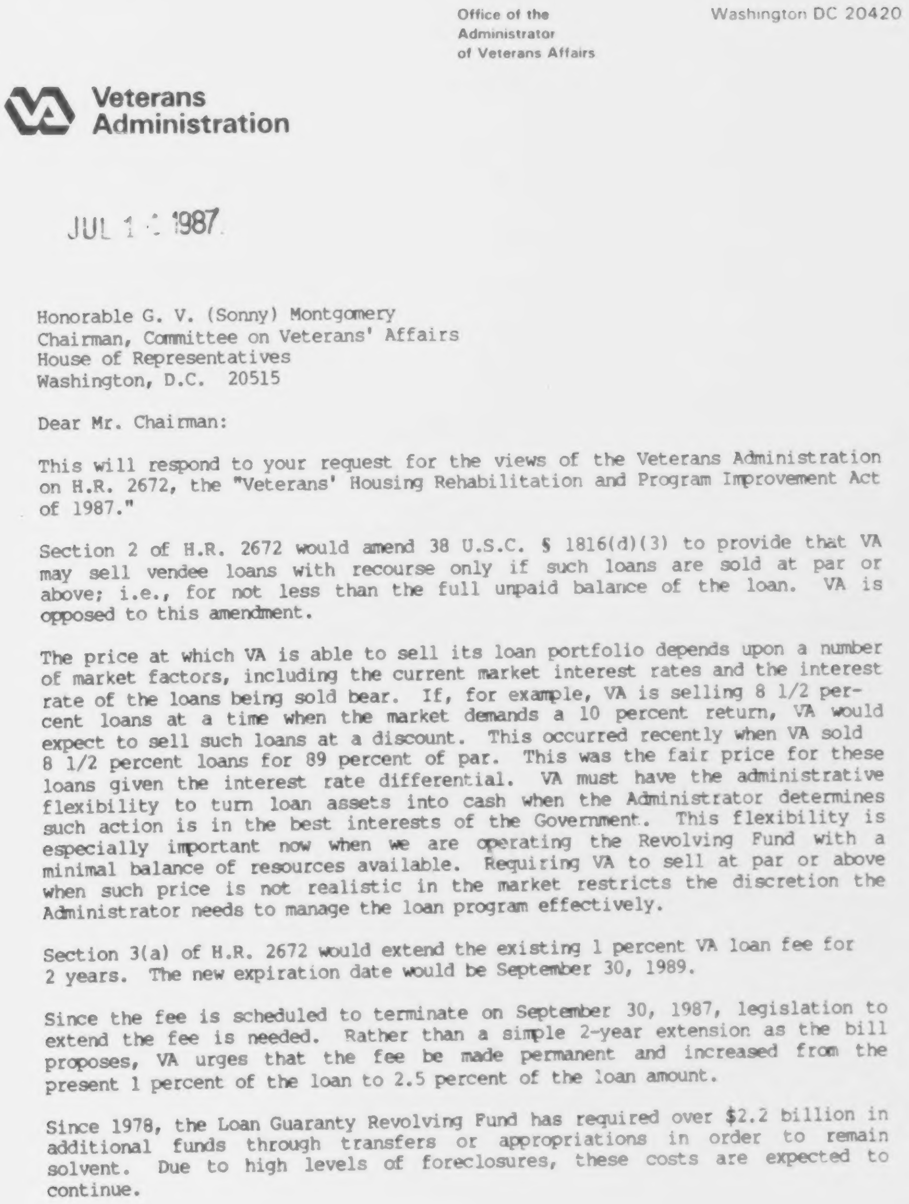
9. ESTIMATE PREPARED BY: K.W. Shepherd (226-2820).

10. ESTIMATE APPROVED BY:

James L. Blum
Assistant Director
for Budget Analysis

AGENCY REPORTS

The Committee received the following letter from the Veterans Administration on H.R. 2672.



Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

JUL 1 [illegible] 1987

Honorable G. V. (Sonny) Montgomery
Chairman, Committee on Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This will respond to your request for the views of the Veterans Administration on H.R. 2672, the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987."

Section 2 of H.R. 2672 would amend 38 U.S.C. § 1816(d)(3) to provide that VA may sell vendee loans with recourse only if such loans are sold at par or above; i.e., for not less than the full unpaid balance of the loan. VA is opposed to this amendment.

The price at which VA is able to sell its loan portfolio depends upon a number of market factors, including the current market interest rates and the interest rate of the loans being sold bear. If, for example, VA is selling 8 1/2 percent loans at a time when the market demands a 10 percent return, VA would expect to sell such loans at a discount. This occurred recently when VA sold 8 1/2 percent loans for 89 percent of par. This was the fair price for these loans given the interest rate differential. VA must have the administrative flexibility to turn loan assets into cash when the Administrator determines such action is in the best interests of the Government. This flexibility is especially important now when we are operating the Revolving Fund with a minimal balance of resources available. Requiring VA to sell at par or above when such price is not realistic in the market restricts the discretion the Administrator needs to manage the loan program effectively.

Section 3(a) of H.R. 2672 would extend the existing 1 percent VA loan fee for 2 years. The new expiration date would be September 30, 1989.

Since the fee is scheduled to terminate on September 30, 1987, legislation to extend the fee is needed. Rather than a simple 2-year extension as the bill proposes, VA urges that the fee be made permanent and increased from the present 1 percent of the loan to 2.5 percent of the loan amount.

Since 1978, the Loan Guaranty Revolving Fund has required over $2.2 billion in additional funds through transfers or appropriations in order to remain solvent. Due to high levels of foreclosures, these costs are expected to continue.

As a result of higher costs associated with property acquisitions and claim payments, a $100 million supplemental appropriation has been requested to fund these expenses, currently estimated to be $3.1 billion in FY 1987. If the fee remains at 1 percent, we project that an appropriation of $389.8 million will be needed in Fiscal Year 1988. If, however, the 2 1/2 percent fee were enacted, an appropriation in Fiscal Year 1988 would not be necessary.

The VA home loan program has been and continues to be of great importance to present and former members of the Nation's Armed Forces who seek to become homeowners. Our proposal would not affect the primary program benefit, which is the no-down-payment loan terms. We believe that this group should bear a portion of the cost of providing the benefit through a modest, one-time fee. This fee, if financed, would increase the average monthly mortgage payment by less than $10.

Fairness requires that purchasers of VA acquired properties who obtain financing from VA be required to bear costs which are comparable to those imposed upon veterans using their earned benefits.

Section 3(b) of the bill would make a technical amendment to the loan fee provisions regarding surviving spouses. Currently, veterans who are entitled to receive compensation for a service-connected disability and surviving spouses of veterans who died from a service-connected cause are exempt from paying the fee. As the law is now drafted, however, if such surviving spouse is also a veteran and has home loan entitlement in his or her own right, the surviving spouse must pay the loan fee. It appears unjust to, in effect, penalize a surviving spouse of a veteran who died from a service-connected cause because such surviving spouse also honorably served the Nation.

Therefore, H.R. 2672 would exempt all surviving spouses of veterans who died from a service-connected disability, including those who are also veterans, from paying the loan fee. VA has no objection to this proposal.

Under section 3(c) of H.R. 2672, the Administrator would be required, before the start of each fiscal year, to estimate the total income and obligations of the Loan Guaranty Revolving Fund. If the Administrator estimates that the Fund will be solvent for the coming year, collection of the loan fee will be suspended for that year. VA opposes this proposal.

Many factors, such as changes in economic conditions and interest rates affect the Revolving Fund. VA cannot accurately project a year in advance the Fund's income and requirements. For example, in 1985 the Administrator must predict the budgetary needs of the Loan Guaranty Service for Fiscal Year 1987; a decision based in part on the solvency, in 1987, of the Loan Guaranty Revolving Fund. It is extremely hard to accurately predict the dollar amount of the obligations VA will actually incur in any given fiscal year. To base the assessment and collection of loan fees on an estimate of the Fund's solvency made 1 to 2 years prior to the fiscal year in question would deprive the Fund of possibly vital income for the period of an entire fiscal year; a period in which the Fund's obligations might rise dramatically. As a case in point, at the outset of Fiscal Year 1987 the Fund held $300 million. Due to unanticipated obligations incurred by a high rise in the number of defaults and foreclosures, the Fund had only $67 million at the end of April. Under the provisions of this proposed section, had the Administrator predicted in Fiscal Year 1985 that the Fund would be solvent in Fiscal Year 1987, collection of the loan fees would have been suspended for this entire year. This would have resulted in over $300 million in reduced collections and would have required Congress to provide a $400 million supplemental appropriation rather than the $100 million recently passed.

Further, VA does not consider it equitable for some veterans to be required to pay the fee, while other veterans will not pay this fee, based upon the year the veteran closes his or her loan. Very few loans are terminated in the year they are originated. Costs to VA from foreclosures of loans guaranteed in 1 year will be spread out over the following 2 to 10 years. Eliminating the fee in selected fiscal years will cause a shortage of funds to meet costs of future guaranty claims, including claims on loans made in years when collection of the fee was waived. Therefore, even if in some future year projections show the Revolving Fund will be solvent, the loan fee should continue to be collected to build up a reserve against possible losses in future years.

Section 4 of H.R. 2672 would change the guaranty on both conventionally built and manufactured home loans to 30 percent of the loan amount, with no maximum. VA opposes this proposal.

Currently, the guaranty on conventionally built homes is 60 percent, not to exceed $27,500. On larger loans, the actual guaranty percentage is calculated by dividing $27,500 by the original loan principal. In Fiscal Year 1986 the average loan was $70,912. Therefore, the average guaranty was 38.78 percent.

The VA has two concerns about this proposal. First, under this proposal there would be no maximum guaranty for larger loans. For example, on a $200,000 loan, the Government's liability would be $60,000, rather than $27,500 under current law. Such larger loans are not uncommon in high-cost areas, such as the Washington, D.C. area and parts of southern California. We must keep in mind that, presently, as the guaranty percentage decreases on larger loans, lenders require larger down payments. Thus, veterans purchasing more expensive residences now tend to obtain conventional financing. If, however, the guaranty was 30 percent of the loan with no dollar limitation, VA could expect to guarantee a significant number of large, no-down-payment loans. The VA home loan program was originally intended as a readjustment benefit to assist GIs returning from World War II in obtaining their first home. The program is not intended to assist wealthy individuals to obtain jumbo no-down-payment loans which would substantially increase the Government's liability and could conceivably become a new drain on the already depleated resources of the Revolving Fund.

Second, we believe that decreasing the guaranty to 30 percent on smaller loans could hurt some lower-income veterans. On a $40,000 loan, the current guaranty is $24,000. Under H.R. 2672, the guaranty would be only $12,000. In such a case, accrued interest on a loan in default may increase the debt to the point where, under criteria contained in 38 U.S.C. § 1816(c), it would not be cost-effective for VA to accept conveyance of the property. This may result in lenders being unwilling to make smaller loans, thereby making it more difficult for lower-income veterans to secure housing. The VA does, however, recognize that a reduction in the guaranty percent would reduce losses associated with foreclosure of smaller loans. Although there may be merit to lowering the percentage of guaranty from the current 60 percent, the VA believes that the guaranty should be somewhat higher than the 30 percent proposed.

While VA believes that the current $27,500 guaranty is adequate and does not recommend any changes to the present law in this regard, if the Congress believes an amendment is appropriate, we would suggest that consideration be given to setting the guaranty at 40 percent, with a maximum guaranty of $33,500. We believe a 40 percent guaranty would permit most lower-income veterans to continue to participate in the Loan Guaranty Program. Further, the 40 percent guaranty would result in lower debts being established against veterans at the lower end of the housing market whose loans have been foreclosed. Additionally, the $33,500 guaranty limit would benefit veterans in high cost areas without significantly increasing the Government's contingent liability.

For similar reasons, VA believes the 30 percent guaranty on manufactured housing loans would prove insufficient for most lenders, and could result in veterans being unable to take advantage of this benefit.

Many of the following sections which we will comment on specifically deal with the general area of servicing delinquent loans. We stress that VA places great responsibility on lenders for adequate servicing efforts, particularly in the first 3 months of delinquency. It is during this time frame, when VA is typically not even notified of the delinquency, that effective servicing by a lender can be most beneficial. Most loan cures occur during this period. Servicing chronic delinquencies, especially those over 6 months, is much more time consuming and inherently more difficult.

In order to encourage adequate lender servicing prior to a notice of default, the VA has recently established explicit lender servicing guidelines. These guidelines, which are consistent with servicing guidelines in place for most conventional loans, require regular lender contact with delinquent home owners--beginning 17 to 20 days into the delinquency--with the objective of increasing the number of early cures and identifying loans which cannot be cured before large debts are created. The VA is in the process of monitoring field station implementation and lender compliance with these guidelines.

Section 5 of H.R. 2672 would require that, upon receiving notice of a veteran's default, VA contact the veteran and provide him or her with notice of alternatives to foreclosure. VA strongly opposes this section.

In all cases, VA makes an effort to contact veterans in default and insure that appropriate loan servicing is conducted by both the loan holder and VA. Two of the alternatives to foreclosure specified in section 5 of H.R. 2672 exist under current law; i.e., a deed in lieu of foreclosure and loan refunding. VA now encourages deeds in lieu in all appropriate cases. Accepting a deed in lieu would not, however, be appropriate when there are secondary liens, the veteran has the ability to maintain the mortgage payments, or the veteran would be able to repay any post-foreclosure debt established. Likewise, VA reviews every default prior to foreclosure to determine whether refunding would be appropriate.

We must stress that providing a deed in lieu of foreclosure and having VA refund a loan in default are not vested rights of veteran-borrowers. Rather, they are tools that VA may use to assist veterans when, in the Administrator's discretion, doing so would be in the best interest of the Government. Requiring VA to notify every veteran in default of options open to VA which, in fact, may not be appropriate in that veteran's case would serve no useful purpose and only raise false hopes for the veteran. In addition, placing this requirement in the law could lead to numerous lawsuits, including class actions, such as has been filed against other agencies, to enjoin foreclosures based upon an alleged failure to provide adequate notice. This proposal could result in substantial new costs to the VA at a time when sufficient funds do not exist to cover existing costs.

Section 6 of H.R. 2672 would amend 38 U.S.C. § 1816(c) to permit VA to establish an interest cutoff date when foreclosure is delayed by VA or as a result of forbearance granted at VA's request. VA does not object to this provision.

When foreclosure is delayed, for any reason, interest accrues on the loan. Accrued interest increases the veteran's total indebtedness. Eventually, the total indebtedness may reach a point where, under the net value formula, it will be more cost-effective to pay the guaranty, rather than acquire the property. Some lenders consider it unfair that they are prevented from conveying the property as a result of delays attributable to VA when they were ready to conduct the foreclosure sooner. Interest cut off under section 6 of H.R. 2672 would be lost, and could not be included in the guaranty claim. The result of this proposal is that veterans debts could be reduced, lenders would be paid less for properties acquired, and the VA would acquire more properties. Current VA procedures permit interest cutoff when forbearance is granted.

Although we have no specific proposal, it would seem fair that, if VA is responsible for VA caused delays in the foreclosure process, lenders ought to be responsible for lender related problems in the underwriting and servicing of VA loans.

Section 7 of H.R. 2672 would establish a direct loan program for veterans residing in American Samoa. VA strongly opposes this provision.

Section 1811 of title 38, United States Code, authorizes VA to make direct loans to veterans living in housing credit shortage areas. Because of the expansion of the secondary mortgage markets, and the great increase in the liquidity and availability of credit funds, direct loan programs for housing assistance are no longer necessary in the United States. As a result, in recent years, direct loans have been used only to assist disabled veterans who qualify for specially adapted housing.

Due to the unique real property laws in American Samoa, private lenders have been unwilling to make home loans to persons residing in that territory. Under Samoan law, most land is under a communal system, and non-Samoans ordinarily may not acquire an interest in Samoan land. Court decisions make it questionable whether defaulted loans could be foreclosed by outside lenders. Section 7 of the bill provides that VA's loan would be in an amount equal to that provided by the Government of American Samoa. It is not clear if the size of the loan would be limited to $33,000, pursuant to 38 U.S.C. § 1811(d)(3). If the territorial government provides a loan, VA may not be able to obtain a first lien (assuming any enforceable lien is possible). The proposed amendment would not address any of these issues. Regardless of whether these issues could be worked out, we do not support the expansion of our current direct loan program to nonservice-disabled veterans.

VA has previously suggested that the Government of American Samoa should establish a direct loan program for its citizens. Assuming the requirements of title 38 could be met (e.g. lien requirements), loans made to eligible veterans could then be guaranteed by VA. We do not favor creating a special VA direct loan program for residents of one area when their needs can best be addressed by their local government.

Section 8 of H.R. 2672 would make two amendments relating to occupancy requirements. Section 8(a) of the bill would permit veterans who have been transferred and no longer occupy the home to obtain interest rate reduction refinancing loans. Presently, a VA housing loan may only be made for a property owned and occupied by the veteran as his or her home. In the past, VA has opposed measures such as section 8 of H.R. 2672. After further study, we realize that this proposal would benefit veterans whose jobs require periodic transfer. Therefore, VA would not object to this proposal if it was limited to one-time use for foreign service and active duty military personnel who certify that they intend to reoccupy the property in the future.

The other amendment, contained in section 8(b) of H.R. 2672, would provide that a person on active duty in the Armed Forces would be deemed to occupy a property for VA loan purposes if the spouse and all the dependent children of the servicemember actually occupied the property. We understand that this proposal is intended to aid servicemembers whose duty situation; e.g., lengthy sea duty or overseas assignment, prevents them from occupying the family home. Although VA favors helping servicemembers in this situation, we cannot favor this proposal as drafted.

When reasonably possible, VA liberally construes current occupancy requirements, and looks primarily to the occupancy of the spouse in cases involving servicemembers on distant assignment. The requirement in section 8(b) of H.R. 2672 that the spouse and all of the servicemember's dependent children occupy the property could cause VA to disapprove some loans that are currently approved. This would include cases where a child was away attending school, was in a long-term medical care facility, or where a child of a prior marriage resided with the former spouse.

Section 9 of H.R. 2672 would authorize the Administrator to enter into agreements with certain organizations, or political subdivisions, to sell VA acquired properties for use by those subdivisions as shelter primarily for homeless veterans and their families. Such agreements could only be entered into if the sales would not adversely affect the VA's ability to fulfill its statutory mission and the short- and long-term solvency of the Loan Guaranty Revolving Fund.

Providing assistance to the homeless is of great concern to the Veterans Administration. We support the idea that carefully selected real property acquired through foreclosure of VA guaranteed loans be put to use in the effort to assist homeless veterans. This section appears to meet most of the VA's requirements to protect both the program and the Loan Guaranty Revolving Fund. In order to provide the Administrator flexibility in establishing the sales price in selling the properties to the designated entity, it is recommended that section 9(a)(2) be amended to delete in the last sentence of that section "in the best interests of homeless veterans and the Federal Government" and inserting in its place "in accordance with paragraph (3)(A)". Additionally, it is suggested that paragraph (3)(B)(iii) of section 9(a) be deleted in its entirety as those provisions are not sufficiently objective for accurate and proper administration.

Section 9(b) of the bill would seek to promote the training of veterans under the Veterans' Job Training Act (VJTA). This proposal would permit the Administrator to make VA acquired properties available at discounts of up to 25 percent of fair market value to purchasers who agree to use veterans participating in a VJTA training program in rehabilitating the residences. These purchasers must further agree to give veterans preference in the purchase of such rehabilitated residences. This subsection would also reduce the debt of a veteran whose foreclosed property was so conveyed by an amount equal to the purchaser's discount. We strongly object to this program. The Veterans Administration is not proposing to continue the VJTA program, as the veterans unemployment rate is less than the nonveteran unemployment rate, and other employment assistance is available to veterans.

Even if the VJTA program is extended, as is being considered by Congress, we have reservations about the merits of this proposal. The VA home loan program is dependent upon the Loan Guaranty Revolving Fund to meet expenses associated with operation of the program. As we noted with regard to section 3(a) of this bill, the Revolving Fund has been substantially depleted. The purpose of acquiring and reselling properties is to minimize VA's losses from foreclosure of guaranteed loans. This proposal would increase these losses. Since offering VA acquired properties at substantial discounts would further deplete the Fund, VA opposes section 9(b) of H.R. 2672.

Section 10 of H.R. 2672 would authorize VA to include in vendee loans additional moneys to be used to rehabilitate the properties purchased from VA. VA opposes this section.

We would stress that vendee "loans" do not involve a disbursement of cash, and are not intended as a benefit program. Rather, properties that secured foreclosed guaranteed loans are acquired and sold by VA as a salvage operation to recoup guaranty funds. Some properties are sold on credit terms. Sales, including credit sales, are made to the public, and not necessarily to veterans.

While VA may make repairs that are essential to preserve the property, or which are economically justified, properties are normally sold "as is." We believe most purchasers are well aware of this fact, and willingly acquire properties in need of repair for favorable price terms. Given the current high rate of foreclosures on vendee loans (three times that of a guaranteed loan), it would not be prudent to advance additional funds to risky borrowers.

Implementing section 10 of H.R. 2672 would require diverting Loan Guaranty revolving funds and staff time from our primary mission of serving veterans. We cannot favor such a diversion, no matter how worthy the goal.

Section 11 of H.R. 2672 would require that, when a veteran sells a property subject to a VA guaranteed loan to a person assuming such loan, the veteran notify the loan holder in advance, and that the holder approve the assumer from a credit and income standpoint. If the assumer were disapproved by the holder, the decision could be appealed to VA. If the purchaser were approved, the veteran would be released of liability to VA. If, however, the sale is not approved, the holder may declare the entire loan due and payable.

We believe the proposal to require credit underwriting of persons assuming VA guaranteed loans needs further study. Since our initial review of this proposal brings up both pros and cons, we prefer not to state a position at this time. The need for underwriting could increase the cost of the sale; an example of this is the Department of Housing and Urban Development's recent authorization of a processing fee, not to exceed $500, on assumed loans. The need to underwrite would also increase the time taken to consummate the sale. Also, in a number of cases, veterans who would otherwise default on a loan are able to avoid default by virtue of a sale, with the purchaser assuming the loan. On the other hand, a review of the credit worthiness of a person assuming a VA loan should reduce the possibilities of the loan being assumed by an unqualified purchaser, and would decrease the possibility of default and foreclosure that, in turn, becomes a liability to the veteran. We are seeking data to determine whether assumable loans are the cause of substantial numbers of defaults. Such a requirement would make the VA program more consistent with the requirements of HUD's program.

H.R. 2672 ties the release of liability to the underwriting. We would prefer that the release of liability be an option of the Administrator rather than automatically granted. There may be some cases in which the original veteran purchaser is in imminent danger of foreclosure that might be avoided through the sale of the property to a buyer who is a marginal credit risk. In those cases, it would be in the best interest of the Government to allow the sale to proceed in an attempt to save the loan but, because of the marginal quality of the buyer, to retain the right to collect from the original veteran if foreclosure is ultimately necessary.

Section 12 of H.R. 2672 would add a new section 1816A to title 38, United States Code. This section would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress. VA strongly opposes this section.

Assistance under the new section 1816A could be provided to a veteran who currently owns and occupies a home which secures a VA guaranteed loan. The veteran must be unemployed or have suffered a substantial reduction in household income. The veteran's current VA loan (referred to as the "primary loan" in the bill) must be at least 6 months in default, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

The bill would authorize the Administrator to make advances totaling not more than $8,400 on behalf of a veteran to the holder of the veteran's current VA home loan. The holder of the primary loan would use this advance to bring the primary loan current. Any remaining amount of the advance would be retained by the holder to be applied each month to future loan payments.

Amounts advanced by VA would be a debt owing to the United States by the veteran. This debt will accrue interest at the rate in effect at the time of the advance for VA loans to purchase homes, or the rate on the primary loan, whichever is less. The advance will be secured by a lien on the property securing the primary loan. The veteran would be required to repay the advance within 15 years.

When a VA guaranteed loan is reported as being in default, VA makes every reasonable effort to work with the veteran and holder to prevent foreclosure when possible. There would be very few numbers of veterans who are 6 months delinquent, who would be viewed as being good credit risks, and who would merit the extension of a new direct loan. We believe that a new Federal assistance program, based on direct loans to chronically delinquent borrowers, is not warranted and would drain resources from the Revolving Fund. Currently, the refunding program provides a similar type of relief to qualified veterans. Establishing a program to assist veterans whose home loans are in default would set an undesirable precedent for providing Federal assistance to other similarly situated individuals or groups.

Section 13 of the bill proposed two amendments to our appraisal requirements.

Section 13(a) of H.R. 2672 would specify certain qualifications persons must meet to be designated as a VA fee appraiser. These include passing a written test, submitting a sample appraisal, and submitting recommendations from other appraisers. This would modify existing VA practice, and we have no objection to this proposal.

Section 13(b) of the bill would specifically authorize the Administrator of Veterans' Affairs to establish an appraisal system whereby appraisal reports completed by VA designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. VA favors this amendment.

This system would be similar to the HUD direct endorsement program which has been in operation since 1983. This system should provide more timely service to veterans, and should allow field stations to free up available staff for more comprehensive appraisal reviews and audits.

Section 14 of H.R. 2672 would exclude from a veteran's debt to the Government following the foreclosure of a guaranteed loan certain interest and costs if the veteran offered a deed in lieu of foreclosure and the Administrator refused to accept such deed. VA strongly opposes this proposal.

As we discussed with regard to section 5 of this bill, accepting a deed in lieu of foreclosure is an option open to the Administrator. VA encourages deeds in lieu in appropriate cases; however, they are not appropriate in all cases. VA does not decline to accept deeds in lieu without justification. Veterans should not be able to escape partial liability by merely offering a deed in lieu where it would be contrary to the best interests of the Government to accept this offer.

The cost estimates for the various proposals contained in H.R. 2672 are being reviewed and will be supplied shortly.

The Office of Management and Budget advises that there is no objection from the standpoint of the Administration's program to the submission of this report on H.R. 2672 to the Congress.

Sincerely,

THOMAS K. TURNAGE
Administrator

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 38, UNITED STATES CODE

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PART III—READJUSTMENT AND RELATED BENEFITS

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CHAPTER 37—HOUSING AND SMALL BUSINESS LOANS

SUBCHAPTER I—GENERAL

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1802. Basic entitlement.
1803. Basic provisions relating to loan guaranty.
1804. Restrictions on loans.
1805. Warranties.
1806. Escrow of deposits and downpayments.
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[SUBCHAPTER II—LOANS

[1810. Purchase or construction of homes.
[1811. Direct loans to veterans.
[1815. Insurance of loans.
[1816. Procedure on default.
[1817. Release from liability under guaranty.
[1818. Service after January 31, 1955, and prior to August 5, 1964, or after May 7, 1975.
[1819. Loans to purchase manufactured homes and lots.]

SUBCHAPTER II—LOANS

1810. Purchase or construction of homes.
1811. Direct loans to veterans.
1812. Loans to purchase manufactured homes and lots.
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[1832. Furnishing information to real estate professionals to facilitate the disposition of properties.]

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SUBCHAPTER I—GENERAL

§ 1801. Definitions

(a) For the purpose of this chapter, the term "housing loan" means a loan for any of the purposes specified by sections 1810(a) and [1819(a)(1)] *1812(a)(1)* of this title.

* * * * * * *

§ 1802. Basic entitlement

[(a) Each veteran who served on active duty at any time during World War II, the Korean conflict, or the Vietnam era and whose total service was for ninety days or more, or who was discharged or released from a period of active duty, any part of which occurred during World War II, the Korean conflict, or the Vietnam era, for a service-connected disability, shall be eligible for the housing loan benefits of this chapter.]

*(a)(1) The veterans described in paragraph (2) of this subsection are eligible for the housing loan benefits of this chapter.*In the case of any veteran who served on active duty during two or more of the periods specified [in the preceding sentence, or in section 1818 of this title,] *in paragraph (2)* for which eligibility for the housing loan benefits under this chapter may be granted, entitlement derived from service during the most recent such period [(1)] *(A)* shall cancel any unused entitlement derived from service during any earlier such period, and [(2)] *(B)* shall be reduced by the amount by which entitlement from service during any earlier such period has been used to obtain a direct, guaranteed, or insured housing loan—

[(A)] *(i)* on real property which the veteran owns at the time of application; or

[(B)] *(ii)* as to which the Administrator has incurred actual liability or loss, unless in the event of loss or the incurrence and payment of such liability by the Administrator the resulting indebtedness of the veteran to the United States has been paid in full.

(2) The veterans referred to in the first sentence of paragraph (1) of this subsection are the following:

(A) Each veteran who served on active duty at any time during World War II, the Korean conflict, or the Vietnam era and whose total service was for ninety days or more.

(B) Each veteran who was discharged or released from a period of active duty, any part of which occurred during World War II, the Korean conflict, or the Vietnam era, for a service-connected disability.

(C) Each veteran whose only active duty service occurred after July 25, 1947, and prior to June 27, 1950, and who—

(i) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable; or

(ii) served for a period of 180 days or less and was discharged or released for a service-connected disability.

(D) Each veteran who served on active duty, any part of which occurred after January 31, 1955, and prior to August 5, 1964, or after May 7, 1975, and who—

(i) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable;

(ii) has served more than 180 days in active duty status and continues on active duty without a break therein; or

(iii) was discharged or released from such active duty for a service-connected disability.

(3) Any entitlement based solely on the provisions of clause (D) of paragraph (2) of this subsection which had not expired as of October 23, 1970, and any such entitlement occurring after such date, shall not expire until used.

[Note: Section 1802(g) was transferred and redesignated as 1802(a)(4).]

[(g)**]** *(4)* A veteran's entitlement under this chapter shall not be reduced by any entitlement used by the veteran's spouse which was based upon the provisions of paragraph (3) of section 1801(a) of this title.

[Note: Section 1803(a)(2) was transferred and redesignated as 1802(a)(5).]

[(2)**]** *(5)* Any unused entitlement of World War II or Korean conflict veterans which expired under provisions of law in effect before October 23, 1970, is hereby restored and shall not expire until used.

* * * * * * *

§ 1803. Basic provisions relating to loan guaranty

(a)(1) Any loan to a veteran eligible for benefits under this chapter, if made for any of the purposes, and in compliance with the provisions, specified in this chapter is automatically guaranteed by the United States **[**in an amount not more than 60 percent of the loan if the loan is made for any of the purposes specified in section 1810 of this title.**]** *in an amount not to exceed—*

(A) 40 percent of the loan, or $40,000, whichever is less, reduced by

(B) the amount of entitlement previously used by the veteran under this chapter and not restored as a result of the exclusion in section 1802(b) of this title.

[Note: Sections 1815 (a) and (b) were transferred and redesignated as 1803(a) (2) and (3).]

[a**]** *(2)* Any housing loan which might be guaranteed under the provisions of this chapter, when made or purchased by any financial institution subject to examination and supervision by any agency of the United States or of any State may, in lieu of such guaranty, be insured by the Administrator under an agreement whereby the Administrator will reimburse any such institution for losses incurred on such loan up to 15 per centum of the aggregate of loans so made or purchased by it.

[b] *(3)* Loans insured under this section shall be made on such other terms, conditions, and restrictions as the Administrator may prescribe within the limitations set forth in this chapter.

* * * * * * *

(c)(1) * * *

* * * * * * *

(3) This section shall not be construed to prohibit a veteran from paying to a lender any reasonable discount required by such lender, when the proceeds from the loan are to be used—

(A) to refinance indebtedness pursuant to clause (5), (8), (9)(B)(i) of section 1810(a) of this title or section [1819] *1812*(a)(1)(F) of this title;

* * * * * * *

(E) to refinance indebtedness and purchase a manufactured-home lot pursuant to section 1810(a)(9)(B)(ii) or [1819] *1812*(a)(1)(G) of this title, but only with respect to that portion of the loan used to refinance such indebtedness.

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§ 1804. Restrictions on loans

(a) * * *

* * * * * * *

[(c) No] *(c)(1) Except as provided in paragraph (2) of this subsection, no* loan for the purchase or construction of residential property shall be financed through the assistance of this chapter unless the veteran applicant, at the time that the veteran applies for the loan, and also at the time that the loan is closed, certifies in such form as the Administrator may require, that the veteran intends to occupy the property as the veteran's home. [No] *Except as provided in paragraph (2) of this subsection, no* loan for the repair, alteration, or improvement of residential property shall be financed through the assistance of the provisions of this chapter unless the veteran applicant, at the time that the veteran applies to the lender for the loan, and also at the time that the loan is closed, certifies, in such form as may be required by the Administrator, that the veteran occupies the property as the veteran's home. Notwithstanding the foregoing provisions of this subsection, in the case of a loan automatically guaranteed under this chapter, the veteran shall be required to make the certification only at the time the loan is closed. For the purposes of this chapter the requirement that the veteran recipient of a guaranteed or direct home loan must occupy or intend to occupy the property as the veteran's home means that the veteran as of the date of the veteran's certification actually lives in the property personally as the veteran's residence or actually intends upon completion of the loan and acquisition of the dwelling unit to move into the property personally within a reasonable time and to utilize such property as the veteran's residence. Notwithstanding the foregoing requirements of this subsection, the provisions for certification by the veteran at the time the veteran applies for the loan and at the time the loan is closed shall be considered to be satisfied if the Administrator finds that (1) in the case of a loan for repair, alteration, or improvement the veteran in fact did occupy the property at such times, or (2) in the case of a loan for construction or purchase the veteran intended to occupy the property as the veteran's home at such times and the veteran did in fact so occupy it when, or within a reasonable time after, the loan was closed.

(2) In any case in which a veteran is in active duty status as a member of the Armed Forces, the occupancy requirements of—

(A) paragraph (1) of this subsection;

(B) paragraphs (1) through (5) and paragraph (7) of section 1810(a) of this title;

(C) section 1812(a)(5)(A)(i) of this title; and

(D) section 1812(e)(5) of this title;

shall be considered to be satisfied if the spouse of the veteran occupies the property as the spouse's home and the spouse makes the certification required by paragraph (1) of this subsection.

* * * * * * *

[§ 1807. Service after July 25, 1947, and prior to June 27, 1950

[Each veteran whose only active duty service occurred after July 25, 1947, and prior to June 27, 1950, and who—

[(1) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable; or

[(2) served for a period of 180 days or less and was discharged or released for a service-connected disability;

shall be eligible for housing loan benefits of this chapter.]

SUBCHAPTER II—LOANS

§ 1810. Purchase or construction of homes

[(a) Any] *(a) Except as provided in section 1804(c)(2) of this title, any* loan to a veteran, if made pursuant to the provisions of this chapter, is automatically guaranteed if such loan is for one or more of the following purposes:

(1) * * *

* * * * * * *

(9)(A) * * *

(B)(i) To refinance, in accordance with the terms and conditions applicable under the provisions of subsection (e) of this section (other than paragraph (1)(E) of such subsection) to the guaranty of a loan for the purpose specified in clause (8) of this subsection, an existing loan guaranteed, insured, or made under this chapter that is secured by a manufactured home permanently affixed to a lot that is owned by the veteran.

(ii) To refinance, in accordance with section [1819(a)(5)] *1812(a)(5)* of this title, an existing loan that was made for the purchase of, and that is secured by, a manufactured home that is permanently affixed to a lot and to purchase the lot to which the manufactured home is affixed.

* * * * * * *

(b) No loan may be guaranteed under this section or made under section 1811 of this title unless—

(1) * * *

* * * * * * *

(5) the loan to be paid by the veteran for such property or for the cost of construction, repairs, or alterations, does not exceed the reasonable value thereof as determined [by the Administrator;] *pursuant to section 1831 of this title;* and,

(6) if the loan is for repair, alteration, or improvement of property, such repair, alteration, or improvement substantially protects or improves the basic livability or utility of such property.

[After the reasonable value of any property, construction, repairs, or alterations is determined under paragraph (5), the Administrator shall, as soon as possible thereafter, notify the veteran concerned of such determination.

[(c) The amount of guaranty entitlement available to a veteran under this section shall not be more than $27,500 less such entitlement as may have been used previously under this section and other sections of this chapter.]

* * * * * * *

(e)(1) For a loan to be guaranteed for the purposes specified in subsection (a)(8) of this section—

(A) the interest rate of the loan must be less than the interest rate of the loan being refinanced;

(B) the loan must be secured by the same dwelling or farm residence as was the loan being refinanced and such dwelling or residence must be owned [and occupied by the veteran as such veteran's home] *by the veteran*;

* * * * * * *

(g)(1) * * *

(2) For the purpose of determining whether a veteran meets the standards referred to in subsection (b)(3) of this section and section [1819(e)(2)] *1812(e)(2)* of this title, the Administrator shall prescribe regulations which establish—

(A) credit underwriting standards to be used in evaluating loans to be guaranteed under this chapter; and

(B) standards to be used by lenders in obtaining credit information and processing loans to be guaranteed under this chapter.

* * * * * * *

§ 1811. Direct loans to veterans

(a) The Congress finds that housing credit under section 1810 or [1819] *1812* of this title is not and has not been generally available to veterans living in rural areas, or in small cities and towns not near large metropolitan areas. It is therefore the purpose of this section to provide housing credit for veterans living in such rural areas and such small cities and towns.

(b) Whenever the Administrator finds that private capital is not generally available in any rural area or small city or town for the financing of loans guaranteed under section 1810 or [1819] *1812* of this title, the Administrator shall designate such rural area or small city or town as a "housing credit shortage area". The Administrator shall, with respect to any such area, make, or enter into commitments to make, to any veteran eligible under this title, a loan for any or all of the purposes described in section 1810(a) or [1819] *1812* of this title (other than the refinancing of a loan under section 1810(a)(8) or [1819] *1812*(a)(1)(F)).

(c) No loan may be made under this section to a veteran unless the veteran shows to the satisfaction of the Administrator that—

(1) the veteran is unable to obtain from a private lender in such housing credit shortage area, at an interest rate not in excess of the rate authorized for guaranteed home loans or manufactured home loans, as appropriate, a loan for such purpose for which the veteran is qualified under section 1810 or [1819] *1812* of this title, as appropriate; and

(2) the veteran is unable to obtain a loan for such purpose from the Secretary of Agriculture under title III of the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) or title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.).

(d)(1) Loans made under this section shall bear interest at a rate determined by the Administrator, not to exceed the rate authorized for guaranteed home loans, or manufactured home loans, as appropriate, and shall be subject to such requirements or limitations prescribed for loans guaranteed under this title as may be applicable.

(2)(A) Except for any loan made under this chapter for the purposes described in section [1819] *1812* of this title, the original principal amount of any loan made under this section shall not exceed an amount which bears the same ratio to $33,000 as the amount of guaranty to which the veteran is entitled under section 1810 of this title at the time the loan is made bears to [$27,500] *$40,000*; and the guaranty entitlement of any veteran who heretofore or hereafter has been granted a loan under this section shall be charged with an amount which bears the same ratio to [$27,500] *$40,000* as the amount of the loan bears to $33,000.

(B) The original principal amount of any loan made under this section for the purposes described in section [1819] *1812* of this title shall not exceed the amount that bears the same ratio to $33,000 as the amount of guaranty to which the veteran is entitled under such section at the time the loan is made bears to $20,000. The amount of the guaranty entitlement under section 1810(c) of this title of any veteran who is granted a loan under this section, or who before October 18, 1978, was granted a loan under this section, shall be charged with the amount that bears the same ratio to $20,000 as the amount of the loan bears to $33,000.

* * * * * * *

(g) The Administrator may sell, and shall offer for sale, to any person or entity approved for such purpose by the Administrator, any loan made under this section at a price which the Administrator determines to be reasonable under the conditions prevailing in the mortgage market when the agreement to sell the loan is made; and shall guarantee any loan thus sold subject to the same conditions, terms, and limitations which would be applicable were the loan guaranteed under section 1810 or **[**1819**]** *1812* of this title, as appropriate.

* * * * * * *

(l) The Administrator shall make loans, in accordance with subsection (d)(2) and the other provisions of this section, to eligible veterans in American Samoa in an amount equal to the amount provided to such veteran by the government of American Samoa.

[Note: Section 1819 was transferred and redesignated as section 1812.]

[§ 1819.**]** *§ 1812.* Loans to purchase manufactured homes and lots

(a)(1) Notwithstanding any other provision of this chapter, any loan to a veteran eligible for the housing loan benefits of this chapter, if made pursuant to the provisions of this section, may be guaranteed if such loan is for one of the following purposes:

(A) To purchase a lot on which to place a manufactured home already owned by the veteran.

(B) To purchase a single-wide manufactured home.

(C) To purchase a single-wide manufactured home and a lot on which to place such home.

(D) To purchase a double-wide manufactured home.

(E) To purchase a double-wide manufactured home and a lot on which to place such home.

(F) To refinance in accordance with paragraph (4) of this subsection and existing loan guaranteed, insured, or made under this section.

(G) To refinance in accordance with paragraph (5) of this subsection an existing loan that was made for the purchase of, and that is secured by, a manufactured home and to purchase a lot on which such manufactured home is or will be placed.

(2) A loan for any of the purposes described in paragraph (1) of this subsection (other than the refinancing under clause (F) of such paragraph of an existing loan) may include an amount determined by the Administrator to be appropriate to cover the cost of necessary preparation of a lot already owned or to be acquired by the veteran, including the costs of installing utility connections and sanitary facilities, of paving, and of constructing a suitable pad for the manufactured home.

(3) Any loan made for the purposes described in clause (C), (E), or (G) of paragraph (1) of this subsection shall be considered as part of one loan. The transaction may be evidenced by a single loan instrument or by separate loan instruments for (A) that portion of the loan which finances the purchase of the manufactured home, and (B) that portion of the loan which finances the purchase of the lot and necessary preparation of such lot.

(4)(A) For a loan to be guaranteed for the purpose specified in clause (F) of paragraph (1) of this subsection—

(i) the interest of the loan must be less than the interest rate of the loan being refinanced;

(ii) the loan must be secured by the same manufactured home or manufactured-home lot, or manufactured home and manufactured-home lot, as was the loan being refinanced and such manufactured home (or a manufactured home on such lot) must be owned **[**and occupied by the veteran as such veteran's home**]** *by the veteran*.

(iii) the amount of the loan may not exceed an amount equal to the sum of the balance of the loan being refinanced and such closing costs (including any discount permitted pursuant to section 1803(c)(3)(A) of this title) as may be authorized by the Administrator, under regulations which the Administrator shall prescribe, to be included in such loan;

(iv) the amount of the guaranty of the loan may not exceed the original guaranty amount of the loan being refinanced; and

(v) the term of the loan may not exceed the original term of the loan being refinanced.

(B) A loan to a veteran may be guaranteed by the Veterans' Administration under this chapter for the purpose specified in clause (F) of paragraph (1) of this subsection without regard to the amount of outstanding guaranty entitlement available for use by such veteran, and the amount of such veteran's guaranty entitlement shall not be charged as a result of any guaranty provided for such purpose. For purposes of section 1802(b) of this title, such loan shall be deemed to have been obtained with the guaranty entitlement used to obtain the loan being refinanced.

(C) If a veteran is deceased and if such veteran's surviving spouse was a co-obligor under an existing loan previously guaranteed, insured, or made under this section, such surviving spouse shall, only for the purpose specified in clause (F) of paragraph (1) of this subsection, be deemed to be a veteran eligible for benefits under this chapter.

(5)(A) For a loan to be guaranteed for the purpose specified in paragraph (1)(G) of this subsection or section 1810(a)(9)(B)(ii) of this title—

(i) the loan must be secured by the same manufactured home as was the loan being refinanced and such manufactured home must be owned and occupied by the veteran *(except as provided in section 1804(c)(2) of this title)* as such veteran's home; and

(ii) the amount of the loan may not exceed as amount equal to the sum of—

(I) the purchase price of the lot,

(II) the amount (if any) determined by the Administrator to be appropriate under paragraph (2) of this subsection to cover the cost of necessary preparation of such lot,

(III) the balance of the loan being refinanced, and

(IV) such closing costs (including any discount permitted pursuant to section 1803(c)(3)(E) of this title) as may be authorized by the Administrator, under regulations which the Administrator shall prescribe, to be included in such loan.

(B) When a loan is made to a veteran for the purpose specified in paragraph (1)(G) of this subsection or section 1810(a)(9)(B)(ii) of this title, and the loan being refinanced was guaranteed, insured, or made under this section, the portion of the loan made for the purpose of refinancing such loan may be guaranteed by the Veterans' Administration under this chapter without regard to the amount of outstanding guaranty entitlement available for use by such veteran, and the amount of such veteran's guaranty entitlement shall not be charged as a result of any guaranty provided for such portion of such loan. For the purposes of section 1802(b) of this title, such portion of such loan shall be deemed to have been obtained with the guaranty entitlement used to obtain the loan being refinanced.

(b)(1) Use of entitlement under this section for the purchase of a manufactured home unit shall preclude the use of remaining entitlement for the purchase of an additional manufacturing home unit until the unit which secured the loan has been disposed of by the veteran or has been destroyed by fire or other natural hazard.

(2) The Administrator shall restore entitlement to all housing loans benefits under this chapter for the veteran when the conditions prescribed in section 1802(b) of this title have been met.

(c)(1) Loans for any of the purposes authorized by subsection (a) of this section shall be submitted to the Administrator for approval prior to the closing of the loan, except that the Administrator may exempt any lender of a class listed in section 1802(d) of this title from compliance with such prior approval requirement if the Administrator determines that the experience of such lender or class of lenders in manufactured home financing warrants such exemption.

(2) Upon determining that a loan submitted for prior approval is eligible for guaranty under this section, the Administrator shall issue a commitment to guarantee such loan and shall thereafter guarantee the loan when made if such loan qualifies therefor in all respects.

(3) **[**The Administrator's guaranty may not exceed the lesser of 50 per centum of the loan amount or the maximum loan guaranty entitlement available, not to exceed $20,000.**]** *The Administrator's guaranty may not exceed—*

(A) 30 percent of the loan, or $20,000, whichever is less, reduced by

(B) the amount of entitlement previously used by the veteran under this chapter and not restored as a result of the exclusion in section 1802(b) of this title. Payment of a claim under such guaranty shall be made only after liquidation of the security for the loan and the filing of an accounting with the Administrator. In any such accounting the Administrator shall permit to be included therein accrued unpaid interest from the date of the first uncured default of such cutoff date as the Administrator may establish, and the Administrator shall allow the holder of the loan to charge against the liquidation or resale proceeds, accrued interest from the cutoff date established to such further date as the Administrator may determine and such costs and expenses as the Administrator determines to be reasonable and proper. The liability of the United States under the guaranty provided for by this section shall decrease or increase pro rata with any decrease or increase of the amount of the unpaid portion of the obligation.

[(4) The amount of guaranty entitlement available to a veteran under this section shall not be more than $20,000, less the amount of any such entitlement as may have been used under this section. Use of entitlement under section 1810 or 1811 of this title shall reduce entitlement available for use under this section to the same extent that entitlement available under such section 1810 is reduced below $20,000.]

(d)(1) The maturity of any loan guaranteed under this section shall not be more than—

(A) fifteen years and thirty-two days, in the case of a loan for the purchase of a lot;

(B) twenty years and thirty-two days, in the case of a loan for the purchase of—

(i) a single-wide manufactured home; or

(ii) a single-wide manufactured home and a lot;

(C) twenty-three years and thirty-two days, in the case of a loan for the purchase of a double-wide manufactured home; or

(D) twenty-five years and thirty-two days, in the case of a loan for the purchases of a double-wide manufactured home and a lot.

(2) Nothing in paragraph (1) of this subsection shall preclude the Administrator, under regulations which the Administrator shall prescribe, from consenting to necessary advances for the protection of the security or the holder's lien, to a reasonable extension of the term of such loan, or to a reasonable reamortization of such loan.

(e) No loan shall be guaranteed under this section unless—

(1) the loan is repayable in approximately equal monthly installments;

(2) the terms of repayment bear a proper relationship to the veteran's present and anticipated income and expenses, and the veteran is a satisfactory credit risk, as determined in accordance with the regulations prescribed under section 1810(g) of this title and taking into account the purpose of this program to make available lower cost housing to low and lower income veterans, especially those who have been recently discharged or released from active military, naval, or air service, who may not have previously established credit ratings;

(3) the loan is secured by a first lien on the manufactured home purchased with the proceeds of the loan and on any lot acquired or improved with the proceeds of the loan;

(4) the amount of the loan to be paid by the veteran is not in excess of the amount determined to be reasonable, based upon—

(A) with respect to any portion of the loan to purchase a new manufactured home, such cost factors as the Administrator considers proper to take into account;

(B) with respect to any portion of the loan to purchase a used manufactured home, the reasonable value of the property, as determined by the Administrator;

(C) with respect to any portion of the loan to purchase a lot, the reasonable value of such lot, as determined by the Administrator; and

(D) with respect to any portion of the loan to cover the cost of necessary site preparation, an appropriate amount, as determined by the Administrator;

(5) the veteran certifies, in such form as the Administrator shall prescribe, that the veteran will personally occupy the property as the veteran's home; *except that the requirement of this clause shall not apply (A) in the case of a guaranteed loan*

that is for the purpose described in paragraph (1)(F) of subsection (a), or (B) in the case described in section 1804(c)(2);

(6) the manufactured home is or will be placed on a site which meets specifications which the Administrator shall establish by regulation; and

(7) the interest rate to be charged on the loan does not exceed the permissible rate established by the Administrator.

(f) The Administrator shall establish such rate of interest for manufactured home loans and manufactured home lot loans as the Administrator determines to be necessary in order to assure a reasonable supply of manufactured home loan financing for veterans under this section.

(g) The Administrator shall promulgate such regulations as the Administrator determines to be necessary to appropriate in order to fully implement the provisions of this section, and such regulations may specify which provisions in other sections of this chapter the Administrator determines should be applicable to loans guaranteed or made under this section. The Administrator shall have such powers and responsibilities in respect to matters arising under this section as the Administrator has in respect to loans made or guaranteed or under other sections of this chapter.

(h)(1) No loan for the purchase of a manufactured home shall be guaranteed under this section unless the manufactured home and lot, if any, meet or exceed standards for planning, construction, and general acceptability as prescribed by the Administrator and no loan for the purchase of a lot on which to place a manufactured home owned by a veteran shall be guaranteed under this section unless the lot meets such standards prescribed for manufactured home lots. Such standards shall be designed to encourage the maintenance and development of sites for manufactured homes which will be attractive residential areas and which will be free from, and not substantially contribute to, adverse scenic or environmental conditions.

(2)(A) For the purpose of assuring compliance with the standards prescribed under paragraph (1) of this subsection, the Administrator shall from time to time inspect the manufacturing process of manufacturers of manufactured homes sold to veterans utilizing assistance under this chapter. For the purpose stated in the preceding sentence and for the additional purpose of monitoring safety factors involved in the installation of manufactured homes purchased through the utilization of assistance under this chapter, the Administrator shall from time to time conduct random onsite inspections of manufactured homes purchased through the utilization of such assistance.

(B) The Administrator may, with the agreement of the Secretary of Housing and Urban Development, delegate to the Secretary of Housing and Urban Development the duty of the Administrator under subparagraph (A) of this paragraph to inspect the manufacturing process of manufacturers of manufactured homes, but any such delegation shall be subject to an agreement that the Secretary of Housing and Urban Development, upon the request of the Administrator, shall promptly provide the Administrator with the complete results of any inspection made by the Secretary pursuant to such delegation. The Administrator shall have the right to withdraw any delegation under the preceding sentence at any time and in whole or in part.

(i) The Administrator shall require the manufacturer to become a warrantor of any new manufactured home which is approved for purchase with financing through the assistance of this chapter and to furnish to the purchaser a written warranty in such form as the Administrator shall require. Such warranty shall include (1) as specific statement that the manufactured home meets the standards prescribed by the Administrator pursuant to the provisions of subsection (h) of this section; and (2) a provision that the warrantor's liability to the purchaser or owner is limited under the warranty to instances of substantial nonconformity to such standards which become evident within one year from date of purchase and as to which the purchaser or owner gives written notice to the warrantor not later than ten days after the end of the warranty period. The warranty prescribed herein shall be in addition to, and not in derogation of, all other rights and privileges which such purchaser or owner may have under any other law or instrument and shall so provide in the warranty document.

(j) Subject to notice and opportunity for a hearing, the Administrator is authorized to deny guaranteed or direct loan financing in the case of manufactured homes constructed by any manufactuer who refuses to permit the inspections provided for in subsection (h) of this section; or in the case of manufactured homes which are determined by the Administrator not to conform to the aforesaid standards; or where the manufacturer of manufactured homes fails or is unable to discharge the manufacturer's obligations under the warranty.

(k) Subject to notice and opportunity for a hearing, the Administrator may refuse to approve as acceptable any site in a manufactured home park or subdivision owned or operated by any person whose rental or sale methods, procedures, requirements, or practices are determined by the Administrator to be unfair or prejudicial to veterans renting or purchasing such sites. The Administrator may also refuse to guarantee or make direct loans for veterans to purchase manufactured homes offered for sale by any dealer if substantial deficiencies have been discovered in such homes, or if the Administrator determines that there has been a failure or indicated inability of the dealer to discharge contractual liabilities to veterans, or that the type of contract of sale or methods, procedures, or practices pursued by the dealer in the marketing of such properties have been unfair or prejudicial to veteran purchasers.

(l) The Administrator's annual report to Congress shall, beginning 12 months following October 23, 1970, include a report on operations under this section, including the results of inspections required by subsection (h) of this section, experience with compliance with the warranty required by subsection (i) of this section, and the experience regarding defaults and foreclosures.

(m) The provisions of section 1804(d) and section 1821 of this chapter shall be fully applicable to lenders making guaranteed manufactured home loans and manufactured home lot loans and holders of such loans.

§ 1813. Loans to refinance delinquent indebtedness

(a)(1) The Administrator may, at the Administrator's option, provide assistance to a veteran under this section for the purpose of avoiding the foreclosure of a housing loan made to that veteran and guaranteed by the Administrator under section 1810 or 1812 of this title (hereinafter in this section referred to as a "primary loan").

(2) Assistance under this section shall be in the form of a loan to the veteran. Such assistance may be provided only if—

(A) the dwelling that secures the primary loan is the current residence of the veteran and is occupied by the veteran as the veteran's home;

(B) the veteran is at least six months delinquent in payments on that primary loan;

(C) the veteran is unemployed or has had a substantial reduction in household income (as defined in regulations prescribed by the Administrator) through no fault of the veteran; and

(D) the Administrator determines that there is a reasonable prospect that the veteran will be able to resume payment on the primary loan within six months after receiving assistance under this section.

(3) For the purposes of this section, the term "veteran" includes the surviving spouse of a veteran if the surviving spouse was a coobligor of the primary loan.

(b)(1) A loan under this section shall be advanced to the holder of the primary loan. The amount of the loan under this subsection shall first be applied to the amount delinquent on the loan guaranteed under this chapter including any amount delinquent on taxes, assessments, and hazard insurance required by the holder to be included in the veteran's monthly payment on the mortgage. Any remaining amount of such loan shall be retained by the holder and shall be applied to future payments including taxes, assessments, and hazard insurance due on the loan and unpaid (in whole or in part) on the date the payment becomes due.

(2) The Administrator may make more than one loan under this section to a veteran. The total amount of loans under this section to any veteran may not exceed $8,400.

(c) A loan under this section—

(1) shall bear interest at the lower of (A) the maximum rate in effect (as of the date of the first loan made to the veteran under this section) for loans guaranted under section 1810(a)(1) of this title, or (B) the rate on the primary loan;

(2) shall be secured by a lien on the property securing the primary loan and by such other other security as the Administrator may require; and

(3) shall be subject to such additional terms and conditions as the Administrator may require.

(d) As a condition of receiving a loan under this section the veteran shall execute an agreement, in such form as the Administrator may prescribe, to repay the loan within a reasonable period of time, as determined by the Administrator, not to exceed 15 years from the date on which such loan is made. If the Administrator determines that the veteran has sufficient income or other resources to do so, the Administrator may require the veteran to make partial pay-

ments on the primary loan guaranteed under this chapter during the period the holder of that loan is applying the amount of the loan under this section to payments becoming due on the primary loan.

(e) Notwithstanding any other law, the Administrator may employ attorneys to bring suit to collect any amount of a loan under this section on which the veteran to whom the loan is made is in default.

(f) The Administrator's decisions on any question of law or fact regarding assistance under this section, including whether or not to grant such assistance and the terms and conditions under which such assistance is granted or not granted, shall be final and conclusive, and no other official or any court of the United States shall have power or jurisdiction to review any such decision by an action in the nature of mandamus or otherwise.

(g) The Administrator may not make a loan under this section after the end of the two-year period beginning on the effective date of this section.

§ 1814. Release from liability under guaranty

(a)(1) If a veteran disposes of residential property securing a guaranteed, insured, or direct housing loan obtained by the veteran and the veteran notifies the holder of the loan before the property is disposed of, the veteran shall be relieved of all further liability to the Administrator on account of such loan (including liability for any loss resulting from any default of the transferee or any subsequent purchaser of such property) if—

(A) the loan is current, and

(B) the purchaser of such property from such veteran—

(i) is obligated by contract to purchase such property and to assume full liability for the repayment of the balance of the loan remaining unpaid and has assumed by contract all of the obligations of the veteran under the terms of the instruments creating and securing the loan; and

(ii) qualifies from a credit standpoint, to the same extent as if the transferee were a veteran eligible under section 1810 of this title, for a guaranteed or insured or direct loan in an amount equal to the unpaid balance of the obligation for which the transferee has assumed liability.

(2) If the holder determines that the loan is not current or that the purchaser of such property does not meet the requirements of paragraph (1)(B) of this subsection, the holder shall—

(A) notify the veteran and the Administrator of such determination; and

(B) notify the veteran that the veteran may appeal the determination to the Administrator.

(3)(A) Upon the request of the veteran after a determination described in paragraph (2) is made, the Administrator shall review and make a determination with respect to whether the loan is current and whether the purchaser of such property meets the requirements of paragraph (1)(B) of this subsection.

(B) If the Administrator determines that the loan is current and that the purchaser meets the requirements of paragraph (1)(B) of

this subsection, the holder shall approve the transfer, and the veteran shall be relieved of all liability with respect to such loan.

(C) If—

(i) the Administrator determines that the loan is not current or that the purchaser does not meet the requirements of paragraph (1)(B) of this subsection; or

(ii) no appeal is made by the veteran under subparagraph (A) of this paragraph within 30 days after the holder informs the veteran of its determination under paragraph (2) of this subsection,

the holder may demand immediate, full payment be made of the principal, and all interest earned thereon, of such loan if the veteran disposes of the property.

(b) If a veteran disposes of residential property described in subsection (a)(1) of this section and the veteran fails to notify the holder of the loan before the property is disposed of, the holder, upon learning of such action by the veteran, may demand immediate, full payment be made of the principal, and all interest earned thereon, of such loan.

(c)(1) In any case in which the holder of a loan described in subsection (a)(1) of this section has knowledge of a veteran's disposing of residential property securing such loan, the holder shall notify the Administrator of such action.

(2) If the holder fails to notify the Administrator, the holder shall be liable to the Administrator for any damage sustained by the Administrator as a result of such failure, as determined at the time the Administrator has to make payments in accordance with any insurance or guarantee made by the Administrator with respect to the loan concerned.

(d) The Administrator shall provide that each contract entered into by a veteran with respect to a guaranteed, insured, or direct housing loan shall contain provisions implementing the requirements of this section.

[§ 1815. Insurance of loans]

[Note: Sections 1815 (a) and (b) were transferred and redesignated as sections 1803 (a) (2) and (3).]

[Section 1816 (a) through (c) were transferred and redesignated as section 1832. Sections 1816 (d) through (f) were transferred and redesignated as section 1933.]

[§ 1817. Release from liability under guaranty

[(a) Whenever any veteran disposes of residential property securing a guaranteed, insured, or direct housing loan obtained by the veteran, the Administrator, upon application made by such veteran and by the transferee incident to such disposal, shall issue to such veteran in connection with such disposal a release relieving the veteran of all further liability to the Administrator on account of such loan (including liability for any loss resulting from any default of the transferee or any subsequent purchaser of such property) if the Administrator has determined, after such investigation as the Administrator may deem appropriate, that (1) the loan is current, and (2) the purchaser of such property from such veteran (A) is obligated by contract to purchase such property and to assume full liability for the repayment of the balance of the loan remaining unpaid, and has assumed by contract all of the obligations of the veteran under the terms of the instruments creating and securing the loan, and (B) qualifies from a credit standpoint, to the same extent as if the transferee were a veteran eligible under section 1810 of this title, for a guaranteed or insured or direct loan in an amount equal to the unpaid balance of the obligation for which the transferee has assumed liabilty.

[(b) If any veteran disposes of residential property securing a guaranteed, insured, or direct housing loan obtained by the veteran under this chapter without receiving a release from liability with respect to such loan under subsection (a), and a default subsequently occurs which results in liability of the veteran to the Administrator on account of the loan, the Administrator may relieve the veteran of such liability if the Administrator determines, after such investigation as the Administrator deems appropriate, that the property was disposed of by the veteran in such manner, and subject to such conditions, that the Administrator would have issued the veteran a release from liability under subsection (a) with respect to the loan if the veteran had made application therefor incident to such disposal. Failure of a transferee to assume by contract all of the liabilities of the original veteran-borrower shall bar such release of liability only in cases in which no acceptable transferee, either immediate or remote, is legally liable to the Administrator for the indebtedness of the original veteran-borrowing arising from termination of the loan. The failure of a veteran to qualify for release from liability under this subsection does not preclude relief from being granted under subsection 3102(b) of this title, if eligible thereunder.

[§ 1818. Service after January 31, 1955, and prior to August 5, 1964, or after May 7, 1975

[(a) Each veteran who served on active duty, any part of which occurred after January 31, 1955, and prior to August 5, 1964, or after May 7, 1975, and who—

[(1) served for a period of more than 180 days and was discharged or released therefrom under conditions other than dishonorable;

[(2) has served more than 180 days in active duty status and continues on active duty without a break therein; or

[(3) was discharged or released from such active duty for a service-connected disability;

shall be eligible for the housing loan benefits of this chapter, subject to the provisions of section 1802(a) of this title and the provisions of this section.

[(b) Any entitlement to the benefits of this section which had not expired as of October 23, 1970, and any entitlement to such benefits accruing after such date shall not expire until used.]

[Note: Section 1819 was transferred and redesignated as section 1812.]

SUBCHAPTER III—ADMINISTRATIVE PROVISIONS

* * * * * * *

§ 1829. Loan fee

(a) * * *

(b) A fee may not be collected under this section from a veteran who is receiving compensation (or who but for the receipt of retirement pay would be entitled to receive compensation) or from a surviving spouse [described in section 1801(b)(2) of this title.] *of any veteran (including a person who died in the active military, naval, or air service) who died from a service-connected disability.*

(c) A fee may not be collected under this section with respect to any loan closed after September 30, [1987.] *1989.*

* * * * * * *

§ 1831. Appraisals

(a) The Administrator shall—

(1) in consultation with appropriate representatives of institutions which are regularly engaged in making housing loans, prescribe uniform qualifications for appraisers, *including the successful completion of a written test, submission of a sample appraisal, certification of an appropriate number of years of experience as an appraiser, and submission of recommendations from other appraisers;*

* * * * * * *

(c) [The Administrator shall, upon request,] *Except as provided in subsection (f) of this section, the appraiser shall forward an appraisal report to the Administrator for review. The Administrator shall then determine the reasonable value of the property for purposes of this chapter, and notify the veteran of such determination. Upon request, the Administrator shall* furnish a copy of the appraisal made of property for the purposes of this chapter to the lender proposing to make the loan which is to be secured by such property and is to be guaranteed under this chapter.

(d) If a lender *(other than a lender described in subsection (f) of this section)*—

(1) has proposed to make a loan to be guaranteed under this chapter,

* * * * * * *

(f) The Administrator may, in accordance with standards and procedures established by the Administrator, authorize certain lenders to determine the reasonable value of the property. In such a case, the appraiser selected by the Administrator pursuant to subsection (b) of this section shall forward the appraisal report directly to the lender for review who shall, upon request, furnish a copy of such appraisal to the veteran concerned.

[§ 1832. Furnishing information to real estate professionals to facilitate the disposition of properties]

[Note: Section 1832 was transferred and redesignated as section 1833(d).]

[Note: Sections 1816 (a)–(c) were transferred and redesignated as section 1832.]

[§ 1816.] *§ 1832.* **Procedure on default**

(a)(1) In the event of default in the payment of any loan guaranteed under this chapter, the holder of the obligation shall notify the Administrator of such default. Upon receipt of such notice, the Administrator may, subject to subsection (c) of this section, pay to such holder the guaranty not in excess of the pro rata portion of the amount originally guaranteed. If the Administrator makes such a payment, the Administrator shall be subrogated to the rights of the holder of the obligation to the extent of the amount paid on the guaranty.

(2) Before suit or foreclosure the holder of the obligation shall notify the Administrator of the default, and within thirty days thereafter the Administrator may, at the Administrator's option, pay the holder of the obligation the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and security. Nothing in this section shall preclude any forebearance for the benefit of the veteran as may be agreed upon by the parties to the loan and approved by the Administrator.

(3) The Administrator may establish the date, not later than the date of judgment and decree of foreclosure or sale, upon which accrual of interest or charges shall cease.

(4) Upon receipt of a notice pursuant to paragraph (1) of this subsection, the Administrator shall, through the appropriate local office of the Veterans' Administration, contact the veteran concerned for the purpose of providing the veteran with information about—

> *(A) alternatives to foreclosure, including possible methods of curing the default such as (i) conveying the property to the Administrator, or (ii) utilizing the methods authorized by sections 1832(a)(2) and 1813 of this chapter; and*
>
> *(B) in the case of foreclosure, the—*
>
> > *(i) Veterans' Administration and the veteran's liability with respect to the loan; and*
> >
> > *(ii) methods of reducing the veteran's liability to the Veterans' Administration,*

unless the Administrator has received satisfactory assurances that the lender had adequately advised the veteran with respect to such matters. The Administrator shall, to the extent of the availability of appropriations, take such steps as are necessary to assure that sufficient personnel are available to effectively and efficiently administer this paragraph.

(b) With respect to any loan made under section 1811 which has not been sold as provided in subsection (g) of such section, if the Administrator finds, after there has been a default in the payment of any installment of principal or interest owing on such loan, that the default was due to the fact that the veteran who is obligated under the loan has become unemployed as the result of the closing (in whole or in part) of a Federal installation, the Administrator shall (1) extend the time for curing the default to such time as the Administrator determines is necessary and desirable to enable such veteran to complete payments on such loan, including an extension of time beyond the stated maturity thereof, or (2) modify the terms of such loan for the purpose of changing the amortization provisions thereof by recasting, over the remaining term of the loan, or over such longer period as the Administrator may determine, the total unpaid amount then due with the modification to become effective currently or upon the termination of an agreed-upon extension of the period for curing the default.

(c)(1) For purposes of this subsection—

(A) The term "defaulted loan" means a loan that is guaranteed under this chapter, that was made for a purpose described in section 1810(a) of this title, and that is in default.

(B) The term "liquidation sale" means a judicial sale or other disposition of real property to liquidate a defaulted loan that is secured by such property.

(C) The term "net value", with respect to real property, means the amount equal to (i) the fair market value of the property, minus (ii) the total of the amounts which the Administrator estimates the Administrator would incur (if the Administrator were to acquire and dispose of the property) for property taxes, assessments, liens, property maintenance, property improvement, administration, resale, and other costs resulting from the acquisition and disposition of the property.

(D) **[**The**]** *Except as provided by paragraph (10)(B) of this subsection, the* term "total indebtedness", with respect to a defaulted loan, means the amount equal to the total of (i) the unpaid principal of the loan, (ii) the interest on the loan as of the date **[**of the liquidation sale of the property securing the loan (or such earlier date following the expiration of a reasonable period of time for such sale to occur as the Administrator may specify pursuant to regulations prescribed by the Administrator to implement this subsection), and**]** *applicable under paragraph (10)(A) of this subsection, and* (iii) such reasonably necessary and proper charges (as specified in the loan instrument and permitted by such regulations) associated with liquidation of the loan, including advances for taxes, insurance, and maintenance or repair of the real property securing the loan.

(2)(A) Except as provided in subparagraph (B) of this paragraph, this subsection applies to any case in which the holder of a defaulted loan undertakes to liquidate the loan by means of a liquidation sale.

(B) This subsection does not apply to a case in which the Administrator proceeds under subsection (a)(2) of this section.

(3)(A) Before carrying out a liquidation sale of real property securing a defaulted loan, the holder of the loan shall notify the Administrator of the proposed sale. Such notice shall be provided in accordance with regulations prescribed by the Administrator to implement this subsection.

(B) After receiving a notice described in subparagraph (A) of this paragraph, the Administrator shall determine the net value of the property securing the loan and the amount of the total indebtedness under the loan and shall notify the holder of the loan of the determination of such net value.

(4) A case referred to in paragraphs (5), (6), and (7) of this subsection as being described in this paragraph is a case in which the net value of the property securing a defaulted loan exceeds the amount

of the total indebtedness under the loan minus the amount guaranteed under this chapter.

(5) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan acquires the property securing the loan at a liquidation sale an amount that does not exceed the lesser of the net value of the property of the total indebtedness under the loan—

(A) the holder shall have the option to convey the property to the United States in return for payment by the Administrator of an amount equal to the lesser of such net value or total indebtedness; and

(B) the liability of the United States under the loan guaranty under this chapter shall be limited to the amount of such total indebtedness minus the net value of the property.

(6) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan either does not acquire the property securing the loan at the liquidation sale or acquires the property at such sale for an amount that exceeds the lesser of the net value of the property or the total indebtedness under the loan—

(A) the Administrator may not accept conveyance of the property except as provided in paragraph (7) of this subsection; and

(B) the liability of the United States under the loan guaranty under this chapter shall be limited to the amount equal to (i) the amount of such total indebtedness, minus (ii) the amount realized by the holder incident to the sale or the net value of the property, whichever is greater.

(7) In a case described in paragraph (4) of this subsection, if the holder of the defaulted loan acquires the property securing the loan at the liquidation sale for an amount that exceeds the lesser of the total indebtedness under the loan or the net value and that was the minimum amount for which, under applicable State law, the property was permitted to be sold at the liquidation sale—

(A) the Administrator may accept conveyance of the property to the United States for a price not exceeding the lesser of the amount for which the holder acquired the property or the total indebtedness under the loan; and

(B) the liability of the United States under the loan guaranty under this chapter is as provided in paragraph (6)(B) of this subsection.

(8) If the net value of the property securing a defaulted loan is not greater than the amount of the total indebtedness under the loan minus the amount guaranteed under this chapter—

(A) the Administrator may not accept conveyance of the property from the holder of the loan; and

(B) the liability of the United States under the loan guaranty shall be limited to the amount of the total indebtedness under the loan minus the amount realized by the holder of the loan incident to the sale at a liquidation sale of the property.

(9) In no event may the liability of the United States under a guaranteed loan exceed the amount guaranteed with respect to that loan under section 1803(b) of this title. All determinations under this subsection of net value and total indebtedness shall be made by the Administrator.

(10)(A) The date referred to in paragraph (1)(D)(ii) of this subsection shall be—

(i) the date of the liquidation sale of the property securing the loan;

(ii) in any case in which there is a delay in such sale beyond a reasonable period of time caused by the holder of such loan, such earlier date as the Administrator may specify pursuant to regulations prescribed by the Administrator to implement this subsection; or

(iii) in any case in which there is a delay in such sale beyond a reasonable period of time caused by—

(I) the Veterans' Administration;

(II) a voluntary case commenced under title 11, United States Code (relating to bankrupcty); or

(III) the holder of the loan exercising forbearance at the request of the Administrator,

such earlier date which the Administrator shall specify pursuant to such regulations.

(B) For the purpose of determining the liability of the United States under a loan guaranty under clause (B) of paragraphs (5), (6), (7), and (8) of this subsection, the amount of the total indebtedness with respect to such loan guaranty shall include, in any case where there was a delay beyond a reasonable period of time caused by the Veterans' Administration in the liquidation sale of the property securing such loan, any interest which had accrued as of the date of such sale and which would not be included, except for this subparagraph, in the calculation of such total indebtedness as a result of the specification of an earlier date under subparagraph (A)(iii) of this paragraph.

(11) This subsection shall cease to have effect on October 1, 1989.

[Note: Sections 1816 (d)–(f) were transferred and redesignated as sections 1833 (a)–(c).]

§ 1833. Property management

[(d)**]** *(a)*(1) Of the number of purchases made during any fiscal year of real property acquired by the Administrator as the result of a default on a loan guaranteed under this chapter for a purpose described in section 1810(a) of this title, **[**not more than 75 percent, nor less than 60 percent,**]** *not more than 75 percent (65 percent in the case of fiscal years 1988, 1989, and 1990), nor less than 60 percent (50 percent in the case of fiscal years 1988, 1989, and 1990),* of such purchases may be financed by a loan made by the Administrator. The maximum percentage stated in the preceding sentence may be increased to 80 percent for any fiscal year if the Administrator determines that such an increase is necessary in order to maintain the effective functioning of the loan guaranty program.

(2) In carrying out paragraph (1) of this subsection, the Administrator, to the maximum extent consistent with that paragraph and with maintaining the effective functioning of the loan guaranty program under this chapter, shall minimize the number of loans made by the Administrator to finance purchases of real property from the Administrator described in that paragraph.

(3) Notes securing such loans may be sold with recourse only to the extent that the Administrator determines that selling such

notes with recourse is necessary in order to maintain the effective functioning of the loan guaranty program under this chapter.

(4) The Administrator may include, as part of a loan to finance a purchase of property acquired by the Administrator as a result of a default on a loan guaranteed under this chapter, an amount to be used only for the purpose of rehabilitating the property to be purchased with the loan. Such amount may not exceed the amount necessary to rehabilitate the property to a habitable state and shall be made available periodically as such rehabilitation is completed.

(5) This subsection shall cease to have effect on October 1, 1989.

[(e)**]** *(b)* The Administrator may not make a loan to finance purchase of property acquired by the Administrator as a result of a default on a loan guaranteed under this chapter unless the purchaser meets the credit underwriting standards established under section 1810(g)(2)(A) of the title.

[(f)**]** *(c)*(1) The Administrator shall identify and compile information on common factors which the Administrator finds contribute to foreclosures on loans guaranteed under this chapter.

(2) The Administrator shall include a summary of the information compiled, and the Administrator's findings, under paragraph (1) of this subsection in the annual report submitted to the Congress under section 214 of this title. As part of such summary and findings, the Administrator shall provide a separate analysis of the factors which contribute to foreclosures of loans which have been assumed.

[Note: Section 1832 was transferred and redesignated as section 1833(d).]

(d) The Administrator shall furnish to real estate brokers and other real estate sales professionals information on the availability of real property for disposition under this chapter and the procedures used by the Veterans' Administration to dispose of such property.

§ 1834. Exclusion from liability

In any case in which the Administrator refuses to accept a veteran's offer to convey the property securing a housing loan which is guaranteed under this chapter and with respect to which a default has occurred, the Administrator may not include in the liability of the veteran to the Administrator with respect to such loan any interest or other charges, including the cost of foreclosure proceeding, incurred with respect to such loan after 30 days after the date on which such offer is made.

* * * * * * *

SECTION 2512 OF THE DEFICIT REDUCTION ACT OF 1984

ACTIONS TO REDUCE COSTS UNDER HOME-LOAN PROGRAM

SEC. 2512. (a) * * *

* * * * * * *

(c)(1) The amendments made by subsection (a) shall take effect o

October 1, 1984.

[(2) Subsections (c) and (d) of section 1816 of title 38, United States Code (as added by subsection (a) of this section), shall cease to have effect on October 1, 1987.]

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